



DAEWOO SECURITIES  
Annual Report FY2005

## DAEWOO SECURITIES' PROMISE

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### A Good Company

'Being a Good Company' is the timeless commitment that has been instilled in our hearts. It directs us to create high values in areas that matter most to our customers. That's our promise.

### A Globally Competitive Company

We aspire to become a more globally competitive company through enriching our capital and human resources.

### A Challenge Seeking Company

We continue to seek challenges as we boost our market-leading products with a strong competitive edge while strengthening teamwork backed by a healthy competitive spirit.

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**01**

		<b>FY2005</b>	<b>FY2004</b>	<b>FY2003</b>
Operating Revenue	(in billions of KRW)	<b>1,858</b>	824	782
Operating Expenses		<b>1,472</b>	735	622
Operating Income		<b>386</b>	89	160
Ordinary Income		<b>395</b>	(149)	133
Net Income		<b>410</b>	(149)	133
Total Assets	(in billions of KRW)	<b>6,496</b>	5,048	4,058
Total Liabilities		<b>4,762</b>	3,755	2,813
Paid-in Capital		<b>1,021</b>	1,021	1,021
Total Shareholder's Equity		<b>1,734</b>	1,293	1,245
Market Capitalization	(in billions of KRW)	<b>3,069</b>	1,258	936
Total Number of Shares Outstanding	(Shrs)	<b>204,176,641</b>	204,176,641	204,176,641
Common Stock	(Shrs)	<b>190,100,891</b>	190,100,891	190,100,891
Preferred Stock	(Shrs)	<b>14,075,750</b>	14,075,750	14,075,750
Share Price Fiscal Year High (Common Stock)	(in KRW)	<b>20,100</b>	8,440	5,980
Fiscal Year Low (Common Stock)	(in KRW)	<b>5,120</b>	2,855	3,270
BPS	(in KRW)	<b>9,123</b>	6,804	6,549
PBR	(x)	<b>1.7</b>	0.9	0.7
EPS	(in KRW)	<b>2,131</b>	N/A	697
PER	(x)	<b>5.7</b>	N/A	6.8
ROE	(%)	<b>27.1</b>	(11.8)	11.5



Exuberance comes  
from a person's **passion**  
for life and work.  
It is the motivating energy  
that moves people  
to the top of their field.  
At Daewoo Securities,  
our extraordinary **passion**  
drives us to success  
in shaping a new future.

03 to shareholders & customers



Dear Shareholders and Customers:

On behalf of Daewoo Securities, I extend my heartfelt thanks to all shareholders and customers for your continued support.

Looking back at fiscal 2004, our management goal set at 'Retake First Place in the Korean Securities Industry' was achieved on the basis of our 'Selection and Focus' strategies.

In the beginning of fiscal 2005, we renewed a management goal that is encapsulated in the phrase, '50% Up! All-Together,' and took bold steps toward becoming an all-time leader in the Korean financial industry. To this end, we have strengthened sales power, customer relationship management, and synergistic integration of our corporate resources.

Overall effort in fiscal 2005 was evidenced in leveraging substantial growth across our operations. Net income was the highest recorded since our inception over 35 years ago. Accordingly, we distributed cash dividends for the first time since 1999 and we were more than delighted to share profits with shareholders.

At the same time, our performance was rated as outstanding by investors and credit rating service firms, placing us in an advantageous position in the industry. More importantly, 'passion and a challenging spirit' geared with 'teamwork and competition,' which we believe are core values in our corporate culture, have been more deeply instilled in our minds.



### Solidifying a Dominant Position in the Brokerage Sector

During fiscal 2005, we maintained a dominant position in the brokerage sector, a primary business area for a securities company.

Fiscal 2005 saw intensive competition in the securities industry due in large part to the emergence of financial giants formed through mergers and acquisitions in April 2005. However, we managed to seize the industry's No. 1 position amid intensive competition. In terms of market share of commission base, an indicator of the real profitability of a securities company, the market share remained at around 8.8%, leaving a relatively large profitability gap between us and the industry's second-place company. Customer assets increased an 87% to KRW42.7 trillion from the prior year's KRW22.8 trillion.

Major contributors that ensured our bringing outstanding results in the brokerage business were as follows: First, enhanced capabilities of sales personnel; second, intensified employee job training that generated greater customer profitability; third, consistent promotion to retain and attract customers through improved customer relationship management and enhanced offerings; fourth, upgrade of Q-way, our home trading system (HTS) that provided customers more convenient and speedier processing and services.

In addition, we have pinned down and defined upcoming market trends through our unique research capabilities. For instance, we were the first to predict when the Korean stock index would reach four digits. Further, we have held a host of stock investing contests in real time and stock market seminars.



Grand prize  
won in the Marketing Strategy Awards  
hosted by The Korea Economic Daily  
Apr. 21, 2006



## 05

To make fiscal 2006 another banner year, we are placing a priority on achieving a two-digit figure of market share in the securities industry.

In the retail sales business, we plan to widen the profitability gap between us and the industry's second-place company. We will expand our customer base over 30% along with increasing customer assets and new accounts. Our priority also goes to the international business area, which has shown a recovery since last year, and to the wholesale business area, including the institutional business in which the National Pension Service of Korea has rated us as the best performer for nine consecutive quarters, an unprecedented record in the domestic securities industry. At the same time, to be more specialized in the wholesale business area, we decentralized marketing function by subdividing Wholesale Business Division into International Business and Institutional Business Divisions in early 2006.

At a steady pace we recruit highly capable sales staffers in line with sharpening their capabilities. We aim to widen the profitability gap by 20% between us and the industry's second-place company. Thus we rededicate ourselves in our commitment to maintaining the industry's dominant position.



Grand prize (Deputy Prime Minister & Minister of Finance Award) won for three consecutive years in the Korea IB Awards hosted by Moneytoday

Apr. 18, 2006

### Ranking as the Best Underwriter in the IB Businesses

In fiscal 2005, after retaking the No. 1 position in fiscal 2004, we recorded our highest underwriting volume ever, ranking first among underwriters in the investment banking (IB) businesses for two consecutive years.

In businesses involved with initial public offerings (IPO), corporate bonds, rights offerings, and asset-backed securities (ABS), typical investment banking sectors, we brought in substantial results.

In particular, our underwriting volume of IPO brokerage amounted to KRW1 trillion with a market share surpassing 50% as we established the issuance of IPOs of large-sized companies including Lotte Shopping. In corporate bonds brokerage, our underwriting volume totaling KRW1.8 trillion recorded the industry's largest number of issuers. We placed first in the IB business area with the issuance of rights offerings and ABS, fetching KRW266 billion and KRW1.9 trillion, respectively.

We attribute these achievements to our professional employees whose specialized approaches met the various needs of issuers. We were honored when recognition came with the best underwriter award (Deputy Prime Minister & Minister of Finance Award) in the 3rd Korea IB Awards in April 2006 for the third consecutive year.

To continue our leadership in the IB businesses in fiscal 2006, our IB 1 and IB 2 Departments have exclusively taken charge of corporate bonds, rights offerings, and other IB products, while our newly-established Structured Finance Team has dealt with ABS and other structured products.

Staying on the right path to become an industry top player in a broad sense, we will continue to capitalize on turning opportunities into lucrative returns.



Superior marketing company award  
won in the Korea Fund Awards  
co-hosted by Maeil Economic Daily and Zeroin  
Feb. 22, 2006



### Highest Growth Rate in the Wealth Management Business

At Daewoo Securities, the balance of sales of wealth management products has been significantly increased from KRW4.4 trillion in the beginning of fiscal 2004 and KRW7.8 trillion at the end of fiscal 2004 to KRW12.1 trillion at the end of fiscal 2005. Realizing more than a 175% increase in just two years, sales of wealth management products recorded the highest growth rate in the wealth management business.

The unrivaled expertise in our wealth management has brought high-rate returns in a broad business spectrum. For instance, the earning rate of each wealth management products exceeded benchmark levels. Our performance in operating the wrap account of the Ministry of Construction and Transportation stood out among top performers.

For fiscal 2006, the balance of sales in wealth management products is planned to be increased up to KRW16 trillion. The Company continues to ensure qualitative and sustainable growth by focusing on strategic products that can create high profits in making the wealth management business more substantial.



'Best Analyst and Securities Broker'  
selected by Maeil Economic Daily,  
The Hankyung Business Weekly, The Herald Business  
Jan. 2, 2006

### Record High Annual Net Income in Our History

In fiscal 2005, bolstered by a string of positive leads, net income amounted to KRW410.4 billion. This greatly exceeded the goal of KRW180 set early in the year and was the highest recorded since our inception in 1970. Operating income amounted to KRW386.2 billion, a 335% increase year on year, recording the highest growth rate in the domestic securities industry.

In particular, the Company has specifically targeted strategic business areas such as over the counter (OTC) derivatives and sales & trading of IB-related products through providing distinctive services differentiated from competitors. As the result, these products brought KRW40 billion each in net income.

For fiscal 2006, the goal for net income is set at KRW600 with a KRW200 billion increase from expanding profit sources such as OTC derivatives and sales & trading of IB-related products.



**Best securities company**  
in the bonds brokerage sector in Korea  
selected by Asiamoney and FinanceAsia, Hong kong  
Jun. 17, 2005 & Jun. 22, 2005

### Moving Forward to Become a Global Investment Bank

Market watchers say that the Korean stock market will witness rapid change in coming years when the laws for financial market consolidation come into effect. Current regulatory business boundaries in financial institutions will be quickly blurred and competition will be intensified to higher levels. The approval of securities companies for handling settlement, remittance, and 24/7 deposit and withdrawal services will bring greater changes and competition than ever before.

On the other hand, uncertainty often accompanies risks and opportunities. At this juncture, perceiving current and upcoming development and taking decisive action based on breakthrough strategies are critical, as they can sway failure or success. It is this awareness that has led all of our employees to combine their efforts in identifying opportunities.

We set our 'Vision 2010' to become a globally competitive financial house through achieving KRW5 trillion of shareholders' equity with 30% of return on equity (ROE) by 2010. KRW5 trillion is what we can maximally realize by 2010 under anticipated conditions. It also implies a prerequisite amount for us to sufficiently compete with global financial majors in pursuit of becoming a world-renowned financial investment house.



Best securities brand in the securities industry  
voted by consumers in the 2005 Economic Review

Aug. 1, 2005

# 10

For fiscal 2006, the initial year of our Vision 2010 drive to realize ‘KRW 600 billion of net income with 30% of ROE,’ we set management goals addressing the following three fronts:

First, we will widen the profitability gap by 20% between us and second-place companies in the brokerage, investment banking, and wealth management businesses.

Second, we will increase KRW200 in net income over the prior year through putting strategic emphasis on highly profitable new businesses such as OTC derivatives and sales & trading of IB-related products.

Third, we will continue to recruit capable sales staffers in new businesses, upgrade workflow systems including the next-generation info-tech system, and renovate marketing infrastructure.

Although our business performance was strong in fiscal 2005, today’s cross-border race for identifying new sources of revenue requires us to perform at a higher level. Therefore, we work as a cohesive team driven by passion and a challenging spirit with teamwork and competition toward achieving KRW5 trillion of shareholders’ equity.

Again, we extend thanks to our shareholders and customers who make our continued success possible. We look forward to your unwavering support and the opportunity to prosper together.



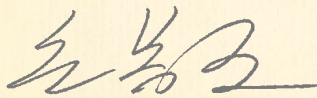
Grand prize (Deputy Prime Minister & Minister of Finance Award)  
won in the 5th Korea e-Finance Awards  
hosted by The Korea Economic Daily  
Aug. 2, 2005



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We Aim at Achieving  
KRW5 Trillion of Shareholders' Equity  
with 30% of ROE in Pursuit of Becoming  
a Globally Competitive Company.

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—  
**Bok-Jo Sohn**  
—

CEO & President,  
Daewoo Securities Co., Ltd.

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Credit rating upgraded to 'A'  
by both Korea Ratings and Korea Investors Service

Dec. 28, 2005



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Dreams and passion fuel  
our **challenging** spirit.  
Obstacles and adversities  
will not deter us  
as we pave an extraordinary path.  
We believe a **challenging** spirit  
changes the world for the good.  
Firmly grounded  
in this belief,  
we venture **challenges** today  
for our dreams  
to come true tomorrow.



Stock Market Performance

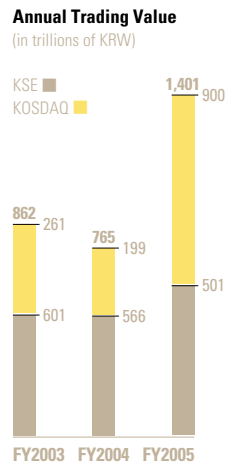
In 2005, the Korea Composite Stock Price Index (KOSPI) hit a new record high, its biggest advance in 11 years, promising an upbeat market reevaluation. The market's distinctive factors last year can be summed up in the following three points: First, the KOSPI surpassed 1,000 points and stabilized after breaking the range from 500 to 1,000 points. Second, increasing indirect investment instruments, including installment-type investment trusts, supported strong growth momentum. Third, despite three highs (oil prices, exchange rates, interest rates) and other unfavorable factors inside and outside Korea, improved domestic corporate earnings accelerated the bullish run.

Looking into major influential factors in the Korean stock market in 2005, one of them was the US' rapid increase in interest rates, which pushed the KOSPI down to a 900-point level in April 2005. Shortly after, the KOSPI rebounded to the 1,000-point level as global stock markets started to stabilize in May along with steady money inflow into indirect investment instruments in Korea. The bullish run continued until international oil prices surged and foreign investors' net selling pushed the KOSPI down by an additional 100 points each in August and October.

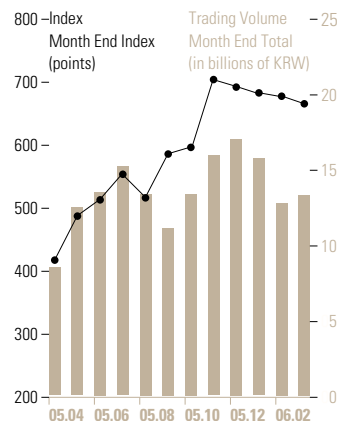
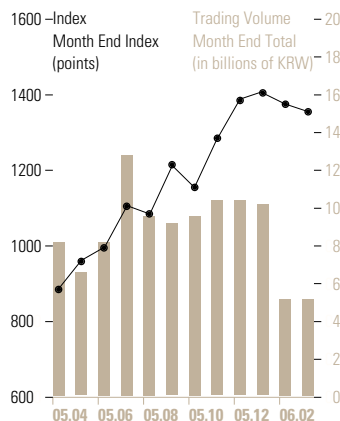
In 2005, aggregate trading value on the Korean stock market stood at KRW1,401,021 billion, an 83.1% increase from the prior year's KRW764,998 billion. The trading value on the Korea Stock Exchange (KSE) amounted to KRW899,802.3 billion and the Korea Securities Dealers Automated Quotation (KOSDAQ) to KRW501,218.7 billion, redressing investors' favoring of the KSE seen in past years. The trading volume of futures and of options on the KOSPI200 increased 18.9% to KRW3,534 trillion and 9.6% to KRW152 trillion, respectively.

As for the investment banking businesses in 2005, the volume of stock issuance on the KSE and KOSDAQ dropped 37.5% to KRW5.8 trillion from the prior year's KRW9.3 trillion. The trading volume in the initial public offerings (IPO) market remained at a KRW2-trillion level due to active venture firms in the KOSDAQ market. The issuance of new shares and of corporate bonds dropped 42.4% to KRW3.8 trillion and 3.5% to KRW45 trillion, respectively. These decreases were part of worsening market situations including sluggish corporate investment and rising interest rates. As of March 2006, the outstanding balance of beneficiary certificates in the market stood at KRW200 trillion, recording a 10.5% increase from KRW181 trillion as of April 2005.

In 2006, the Korean stock market started off bullish. KOSPI surpassed 1,420 points in mid January. However, the fast-appreciating Korean won, increasing market interest rates in the US, and the uncertainty of domestic corporate earnings combined to dampen the market until March. Although affected by these unfavorable indicators, KOSPI rebounded to exceed the 1,300-point level. This has raised investors' expectations of a strong market turnaround.



KOSPI Composite Index



KOSDAQ Composite Index

**Balance Sheet****Business Overview**

(in billions of KRW)	FY2005	FY2004	FY2003
Stock brokerage	239,546	112,998	126,431
Bonds brokerage	99,297	78,515	56,765
Corporate bonds underwriting	3,333	4,451	3,306
Client assets in beneficiary certificates	6,257	4,630	2,807
Assets in custody	57,117	34,662	16,673

Assets in custody refer to securities in custody (beneficiary certificates included) and deposits valued at fair value in 2005 and 2004 and at substitute prices of securities in 2003.

(in billions of KRW)	FY2005	FY2004	FY2003
Current assets	5,663	4,157	3,191
Non-current assets	833	891	867
<b>Total assets</b>	<b>6,496</b>	<b>5,048</b>	<b>4,058</b>
Current liabilities	4,714	3,518	2,580
Long-term liabilities	48	237	232
<b>Total liabilities</b>	<b>4,762</b>	<b>3,755</b>	<b>2,813</b>
Capital stock	1,021	1,021	1,021
Capital surplus	222	227	251
Retained earnings	484	74	222
Capital adjustment	7	-28	-225
<b>Total shareholders' equity</b>	<b>1,734</b>	<b>1,293</b>	<b>1,245</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>6,496</b>	<b>5,048</b>	<b>4,058</b>

**Assets**

In fiscal 2005, total assets amounted to KRW6,496.2 billion, up 28.7% from the prior year's KRW5,048.3 billion. Current assets increased 36.2% to KRW5,663 billion and non-current assets decreased 6.5% to KRW833.2 billion.

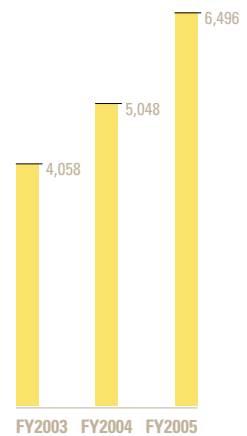
## 1. Current Assets

Short-term securities amounted to KRW2,830 billion, up 39.5% from the prior year's KRW 2,028.7 billion, due to increased holdings of government and public bonds. Active issuance of equity linked-securities (ELS) and stock warrant securities led to a sharp increase in structured securities, which amounted to KRW806.4 billion with a 41% increase from the prior year's KRW572.1 billion.

## 2. Non-current Assets

As available-for-sale securities recorded a 4.3% reduction in fiscal 2005, carrying value of investment securities as a whole decreased 6.5% to KRW472.3 billion. Investment assets increased a slight 0.2% to KRW109.9 billion while tangible assets and non-current assets decreased 6.8% to KRW232.5 billion and 31.3% to KRW18.4 billion, respectively.

**Total Assets**  
(in billions of KRW)



**Liabilities**

In fiscal 2005, total liabilities increased 26.8% to KRW4,762 billion from the prior year's KRW3,754.9 billion. Current liabilities increased 34% to KRW4,714.2 billion while long-term liabilities decreased 79.8% to KRW47.8 billion.

**1. Current Liabilities**

Call money increased KRW33 billion, and short-term borrowings, which totaled KRW20 billion in fiscal 2004, were all repaid upon maturity. The balance of bonds sold under reserve resale agreements increased 41% to KRW1,461.2 billion. Customer deposits and structured securities sold increased 24.7% to KRW1,427.7 billion and 63.9% to KRW1,423.7 billion, respectively. Other current liabilities decreased 17.7% to KRW365.3 billion.

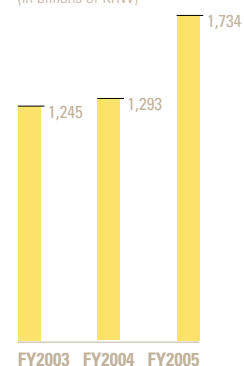
**2. Long-term Liabilities**

Debentures remained at KRW1 billion, a level similar to that seen last year. Reserve for severance and retirement benefits increased to KRW46.8 billion from the prior year's KRW35.9 billion. Early redemption of subordinated bonds contributed to reduce total liabilities, which decreased 79.8% to KRW47.8 billion.

**Shareholders' Equity**

In fiscal 2005, shareholders' equity totaled KRW1,734.2 billion, representing a 27% increase from the prior year's KRW1,293.4. Although capital stock remained unchanged, capital surplus decreased 1.9% to KRW222.4 billion with the deduction for loss of KRW4.2 billion related to sale of affiliated companies. As net income accounted to KRW410.4 billion, retained earnings before appropriations increased 587.9% to KRW479.5 billion and gain on valuation of available-for-sale securities increased 307.8% to KRW42 billion.

**shareholders' equity**  
(in billions of KRW)

**Income Statement****Overview of Profit and Loss**

(in billions of KRW)	FY2005	FY2004	FY2003
<b>Operating revenues</b>	<b>1,858</b>	<b>824</b>	<b>782</b>
Commissions received	654	304	323
Interest income	175	119	82
Dividends income	24	38	13
Gain on sale and valuation of short-term securities	218	77	179
Gain on structured securities transactions	126	12	12
Gain on structured securities transactions sold	57	62	7
Gain on valuation of reserves	52	41	47
for claim of customers' deposit-trust			
Gain on derivatives transactions	552	171	116
Other operating income	0.2	0.06	2
<b>Operating expenses</b>	<b>1,472</b>	<b>735</b>	<b>622</b>
Commission expenses	56	29	29
Interest expenses	95	90	90
Loss on sale and valuation	113	94	42
of short-term marketable securities			
Loss on structured securities transactions	45	38	4
Loss on valuation of marketable securities	0.7	0.4	0.8
Loss on derivatives transactions	233	30	22
Selling and administrative expenses	539	172	116
Operating income	390	282	318
<b>Operating income</b>	<b>386</b>	<b>89</b>	<b>160</b>
<b>Ordinary income</b>	<b>395</b>	<b>-149</b>	<b>133</b>
<b>Net income</b>	<b>410</b>	<b>-149</b>	<b>133</b>

# 16

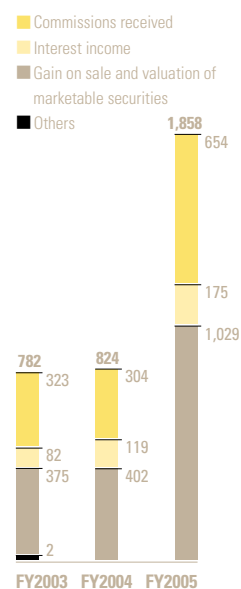
## Operating Revenues

Commissions received in fiscal 2005 amounted to KRW653.8 billion, representing a remarkable 115.1% increase from the prior year's KRW303.9 billion. On the back of increasing trading volume in the Korean stock market and increasing market share of the Company, brokerage commissions rose a 102.6% to KRW491.7 billion from the prior year's KRW242.7 billion. The Company's successful establishment of IPOs for Glovis and Lotte Shopping backed the increase in trading commissions and underwriting commissions, rising 45.5% to KRW34.5 billion.

In fiscal 2005, operating income and dividends income increased 47.7% to KRW175 billion and 338.7% to KRW10.8 billion, respectively. Gain on sale and on valuation of short-term securities increased 179.7% to KRW194 billion and 201.1% to KRW23.8 billion, respectively. The increase in gain on structured securities related to equity-linked securities (ELS) and equity-linked warrants (ELW) was particularly remarkable, posting at KRW126.3 billion with a 944.9% increase from the prior year's KRW12.1 billion. Gain on derivatives transactions related to sale of futures and options posted at KRW551.8 billion, a 222.6% increase from the prior year's KRW171 billion. Overall operating income stood at KRW1,858.2 billion, a 125.5% increase from the prior year's KRW823.9 billion.

## Operating Revenues

(in billions of KRW)



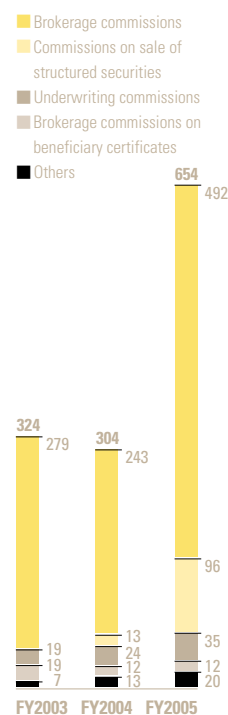
## Operating Expenses

In fiscal 2005, commission expenses increased 93.9% to KRW55.8 billion. Trading commissions increased KRW30.6 billion from the prior year's KRW15.6 billion and investment consultant fees increased KRW11.1 billion from the prior year's KRW4.4 billion. Interest expenses of debentures following redemption decreased 65.4% to KRW9.8 billion. Loss on sale of short-term marketable securities increased 41.9% to KRW96.2 billion while loss on valuation of short-term marketable securities decreased 35.7% to KRW16.5 billion.

Overall operating expenses increased 100.3% to KRW1,472 billion due to the increase in losses on structured securities, valuation of marketable securities sold, structured securities transactions sold, derivatives transactions along with the increase in selling and administrative expenses.

## Commissions received

(in billions of KRW)



## Non-operating Income and Loss, Extraordinary Gain and Loss

In fiscal 2005, non-operating income increased 78% to KRW467 billion. Gain on disposition of available-for-sale securities jumped to KRW14.2 billion, a significant 2,145% increase from the prior year's KRW0.6 billion. Gain on equity-method valuation increased 65.6% to KRW10.1 billion from the prior year's KRW6.1 billion. Including the increased lawsuit-related fees, other non-operating income increased 70.3% to KRW8.8 billion. Overall non-operating income increased 330.8% to KRW46.7 billion. Although loss on foreign currency transactions increased 169.2% to KRW6.7 billion, most of non-operating expenses recorded an 85.4% decrease to KRW38.4 billion. Fiscal 2005 saw no extraordinary gain or loss.



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## Income Tax Expenses

Income tax payments were not made in fiscal 2005 as carry over deductions were allowed for losses incurred in 1999 tax accounting.

In accordance with the Korean Corporate Income Tax Law, however, loss carryover deductions were reflected in the balance sheet to offset the liabilities of income tax levied in gain on valuation of available-for-sale securities.

## Operating Income, Ordinary Income, and Net Income

In fiscal 2005, operating income rose 334.8% to KRW386.2 billion. Ordinary income, reflecting extraordinary gains after adjustment, accounted to KRW394.5 billion. Accordingly, net income totaled KRW410.4 billion, the highest recorded since the Company's inception in 1970, turning black from the prior year's red-ink figure of KRW148.9 billion.

## Risk Management

Daewoo Securities operates advanced risk management systems accompanying proactive analysis and risk hedging measures while turning profit-promising opportunities into lucrative returns. These advanced tools are critical for facilitating financial health and sustainable progress, thus maximizing assets of shareholders and customers.

The Company's risk governance organization, consisting of BOD, CEO, Risk Management Committee, Risk Management Department, and risk managers, is actively involved in managing risks. The Risk Management Department operates independently from wealth management, marketing, and settlement lines. It is responsible for establishing and implementing risk management policies, identifying risks in wealth management, and reporting to management regularly on an ad hoc basis.

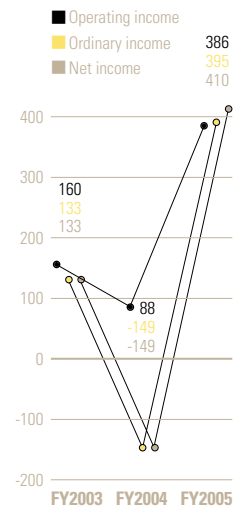
Additionally, the Company implements a proprietary Enterprise Risk Management (ERM) program using the Kamakura Risk Manager (KRM) module to calculate a variety of risk indicators needed for monitoring and analyzing the wealth management status.

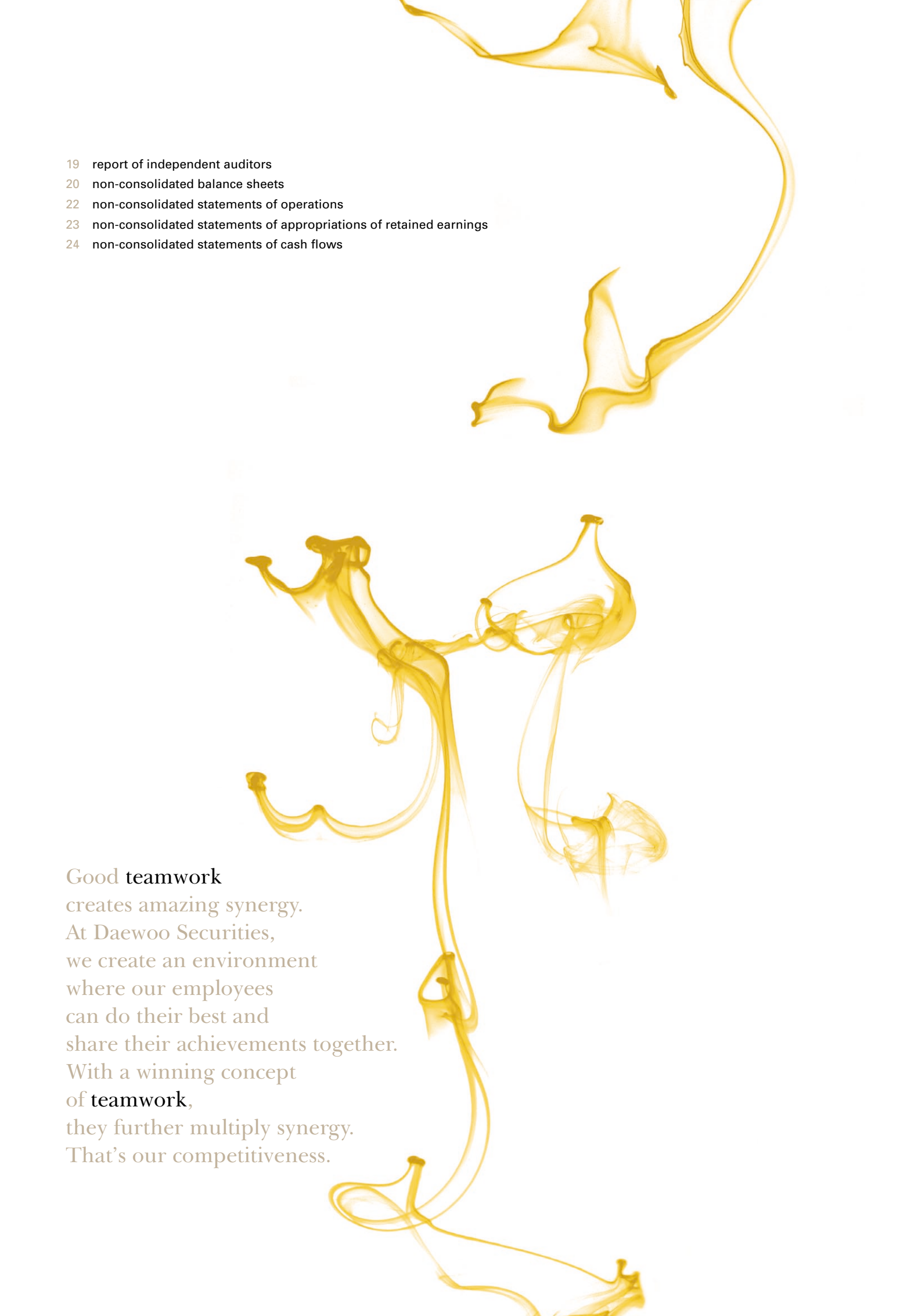
In line with introducing cutting-edge risk management systems, the Company continues to recruit professionals to pinpoint risks more effectively in new products including over the counter (OTC) derivatives to establish a solid ground in new business areas.

## Capital Adequacy Ratio

As of March 31, 2006, net working capital amounted to KRW1,227 billion and risk-weighted assets to KRW207.1 billion. Capital adequacy ratio posted 592.4%, a 130.3% increase from the prior year's 462.1%.

**Income Statement**  
(in billions of KRW)



- 
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Good teamwork  
creates amazing synergy.  
At Daewoo Securities,  
we create an environment  
where our employees  
can do their best and  
share their achievements together.  
With a winning concept  
of teamwork,  
they further multiply synergy.  
That's our competitiveness.



**SAMIL PRICEWATERHOUSECOOPERS**

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**Samil PricewaterhouseCoopers**  
Kukje Center Building, 191 Hankangro 2ga, Yongsanku  
Seoul 140-702, KOREA (Yongsan P.O. Box 266, 140-600)

To the Board of Directors and Shareholders of  
Daewoo Securities Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of Daewoo Securities Co., Ltd. (the "Company") as of March 31, 2006 and 2005, and the related non-consolidated statements of operations, appropriations of retained earnings and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Daewoo Securities Co., Ltd. as of March 31, 2006 and 2005, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw your attention to the following matters.

As discussed in Note 22 to the non-consolidated financial statements, as of March 31, 2006, the Company has appealed the decision of a lower court on a case filed by 13 financial institutions regarding their demand that the Company redeem beneficiary certificates amounting to ₩600,799 million at their carrying value, which the Company rejected but instead offered to redeem the certificates at their fair value. As the ultimate outcome of this appeal cannot yet be presently determined, no adjustment has been made to the non-consolidated financial statements.

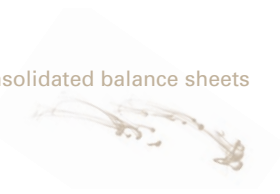
As discussed in Note 34 to the nonconsolidated financial statements, the Company restated its financial statements as of and for the year ended March 31, 2005, to reflect the proper treatment of the sale of the equity-method investment in Daewoo Bank (Hungary) Ltd. to its parent company, The Korea Development Bank in 2003.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea, April 21, 2006

*Samil PricewaterhouseCoopers*

This report is effective as of April 21, 2006, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.



(in millions of Korean won)

	2006	2005
<b>Assets</b>		
<b>Current assets</b>		
Cash and bank deposits (Note 9)	₩ 44,662	₩ 136,154
Deposits (Note 3)	1,317,629	1,095,655
Short-term investment securities (Note 4)	2,830,044	2,028,699
Structured securities (Note 5)	806,360	572,117
Options purchased (Note 8)	-	-
Loans receivable, net (Notes 6 and 13)	445,472	146,738
Other current assets, net (Notes 7, 8, 9 and 13)	218,859	177,842
<b>Total current assets</b>	<b>5,663,026</b>	<b>4,157,205</b>
Long-term investment securities (Notes 9 and 10)	472,330	505,102
Long-term deposits (Notes 3 and 9)	78	79
Long-term loans receivable, net (Notes 11 and 13)	8,460	12,723
Guarantee deposits	93,957	89,350
Other investments	6,435	6,591
Troubled loans receivable, net (Notes 12, 13 and 14)	5,537	9,007
Collective fund for default loss (Note 3)	9,157	12,728
Property and equipment, net of accumulated depreciation (Note 15)	232,488	249,434
Intangible assets, net (Note 16)	4,757	6,072
<b>Total assets</b>	<b>₩ 6,496,225</b>	<b>₩ 5,048,291</b>



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The accompanying notes are an integral part of these non-consolidated financial statements.

(in millions of Korean won)	2006	2005
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Short-term borrowings (Note 17)	₩ 33,000	₩ 20,000
Bonds sold under resale agreements	1,461,190	1,036,486
Deposits from customers (Note 18)	1,427,668	1,144,952
Securities sold	3,286	3,755
Structured securities sold (Note 5)	1,423,730	868,682
Accrued expenses	61,727	29,646
Guarantee deposits received	11,258	6,097
Current portion of long-term debts (Note 19)	-	200,000
Derivative instrument liabilities (Note 8)	1,187	159
Others (Note 9)	291,161	208,135
<b>Total current liabilities</b>	<b>4,714,207</b>	<b>3,517,912</b>
Debentures, net (Note 19)	1,000	1,000
Subordinated debentures, net (Note 19)	-	200,000
Accrued severance benefits, net (Note 20)	46,796	35,946
<b>Total liabilities</b>	<b>4,762,003</b>	<b>3,754,858</b>
Commitments and contingencies (Note 22)		
Shareholders' equity		
Capital stock, par value per share: ₩5,000, Authorized: 600,000,000 shares, Issued and outstanding (Note 23):		
Common stock: 190,100,891 shares	950,504	950,504
Preferred stock: 14,075,750 shares	70,379	70,379
Capital surplus (Note 23)	222,361	226,608
Retained earnings (Note 24)	483,545	73,729
Capital adjustments (Note 26)	7,433	(27,787)
<b>Total shareholders' equity</b>	<b>1,734,222</b>	<b>1,293,433</b>
<b>Total liabilities and shareholders' equity</b>	<b>₩ 6,496,225</b>	<b>₩ 5,048,291</b>





(in millions of Korean won)	2006	2005
<b>Operating revenue (Note 32)</b>		
Commissions received	₩ 653,803	₩ 303,937
Interest income	174,961	118,464
Dividends income	10,834	2,470
Distribution income	13,322	35,392
Gain on sale of marketable securities	194,028	69,381
Gain on valuation of trading securities	23,839	7,918
Gain on structured securities transactions	126,259	12,083
Gain on valuation of securities sold	66	198
Gain on structured securities sold transactions	57,274	62,292
Gain on valuation of reserves for claim of customers' deposit-trust	51,805	40,652
Gain on derivative transactions	551,802	171,040
Gain on sale of loans	212	-
Other operating income	-	62
	<b>1,858,205</b>	<b>823,889</b>
<b>Operating expenses (Note 32)</b>		
Commission expense	55,803	28,774
Interest expenses	95,291	89,609
Loss on sale of trading securities	96,189	67,804
Loss on valuation of marketable securities	16,543	25,745
Loss on structured securities transaction	45,219	38,259
Loss on valuation of trading securities sold	691	437
Loss on structured securities transaction sold	233,113	30,358
Loss on derivatives transactions	539,218	171,672
Losses on sale of loans	176	-
Selling and administrative expenses (Note 31)	389,713	282,288
Others	-	106
	<b>1,471,956</b>	<b>735,052</b>
<b>Operating income</b>	<b>386,249</b>	<b>88,837</b>
<b>Other income (expenses)</b>		
Rental income	8,242	7,872
Gain on equity method valuation, net (Note 10)	7,587	3,891
Gain on disposal of equity method securities, net	(2,408)	2,848
Loss on foreign currency transactions, net	(2,758)	(2,001)
Loss on foreign exchange translation, net	(152)	(1,173)
Loss on impairment of investment securities (Note 10)	(77)	(210,572)
Gain on disposal of property and equipment, net	795	2,998
Loss (gain) on disposal of investment securities, net (Note 10)	13,250	(4,517)
Gain on recovery of receivables written-off	245	2,734
Donations	(466)	(92)
Loss on contingency provision (Note 22)	(21,967)	(40,492)
Others, net	5,969	726
	<b>8,260</b>	<b>(237,778)</b>
<b>Income before income tax benefit</b>	<b>394,509</b>	<b>(148,941)</b>
<b>Income tax benefit (Note 27)</b>	<b>15,914</b>	<b>-</b>
<b>Net income (loss)</b>	<b>₩ 410,423</b>	<b>₩ (148,941)</b>
<b>Per share data (in Korean won) (Note 28)</b>		
Basic ordinary income (loss) per share	₩ 2,131	₩ (783)
Basic earnings (loss) per share	2,131	(783)

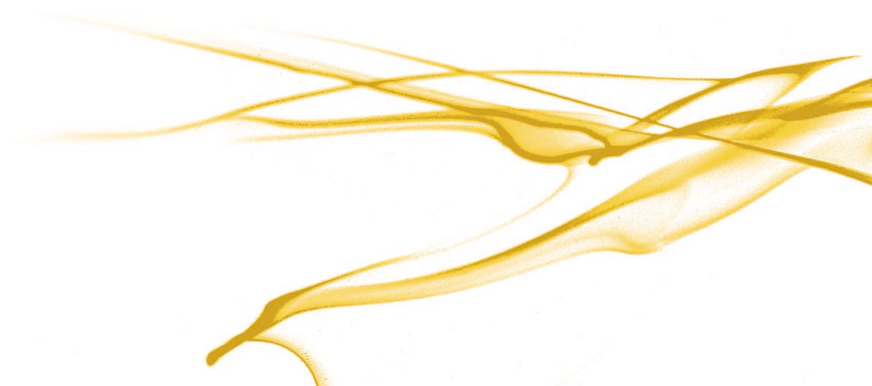
The accompanying notes are an integral part of these  
 non-consolidated financial statements.

(in millions of Korean won)	2006	2005
<b>Retained earnings before appropriations</b>		
Unappropriated retained earnings carried over from prior year	₩ 69,729	₩ 218,209
Effect of valuation of equity method investments (Note 10)	(608)	461
Net income (loss)	410,423	(148,941)
	<b>479,544</b>	<b>69,729</b>
<b>Appropriations of retained earnings</b>		
Reserve for losses on securities transactions	8,144	-
Reserve for forward transaction	52	-
Dividend (Note 24)		
Common stock - ₩400 per share (8.00%)		
Preferred stock - ₩440 per share (8.80%)	81,443	-
	<b>89,639</b>	<b>-</b>
Unappropriated retained earnings carried forward to subsequent year	₩ <b>389,905</b>	₩ <b>69,729</b>






(in millions of Korean won)	2006	2005
<b>Cash flows from operating activities</b>		
Net income (loss)	₩ 410,423	₩ (148,941)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Provision for severance and retirement benefits	15,010	13,330
Depreciation	12,087	12,738
Provision for doubtful accounts	7,203	8,235
Loss from trading securities valuation	(7,295)	25,745
Loss on disposal of investment securities, net	(13,250)	4,517
Loss on impairment of investment securities	77	210,572
Loss on foreign exchange translation, net	152	1,174
Loss on redemption of bonds	1,500	-
Gain on disposal of equity method securities, net	2,408	(2,848)
Gain on trading securities valuation	(66)	(198)
Gain on equity method valuation, net	(7,587)	(3,891)
Amortization of present value discounts	(435)	(2,049)
Gain on valuation of reserve for claims of customers' trust deposits	(51,805)	(40,652)
Others	43,178	26,004
	<b>1,177</b>	<b>252,677</b>
Changes in operating assets and liabilities		
Increase in deposits with Korea Securities Finance Corporation	(170,169)	(6,977)
Increase in trading securities	(848,906)	(464,461)
Increase in accounts receivable	(29,658)	(39,604)
Increase in accrued income	(12,573)	(7,602)
Decrease (increase) in prepaid income tax	1,699	(6,431)
(Increase) Decrease in troubled loans	(5,537)	10,080
Increase in bonds sold under resale agreements	424,704	318,822
Increase in deposits from customers	282,717	131,988
Increase in structured securities sold	488,033	676,101
Increase (decrease) in accrued expenses	32,082	(6,978)
Payments of severance and retirement benefits	(4,181)	(9,814)
Others	(134,468)	(511,056)
	<b>23,743</b>	<b>84,068</b>
<b>Net cash provided by operating activities</b>	<b>435,343</b>	<b>187,804</b>



The accompanying notes are an integral part of these non-consolidated financial statements.

(in millions of Korean won)	2006	2005
<b>Cash flows from investing activities</b>		
Proceeds from (payment for) call loans, net	18,200	98,300
Payment for brokers' loans, net	(316,101)	(70,987)
Disposal of investment securities	172,131	8,865
Proceeds from long-term deposits	-	6
Proceeds from long-term loans	5,782	6,688
Disposal of property and equipment	17,346	11,923
Acquisition of investment securities	(38,862)	(3,088)
Payment for long-term loans	(1,498)	(1,207)
Payment for guarantee deposits	(10,075)	(10,509)
Acquisition of property and equipment	(11,691)	(8,444)
Others	26,433	9,346
<b>Net cash provided by (used in) investing activities</b>	<b>(138,335)</b>	<b>40,893</b>
<b>Cash flows from financing activities</b>		
Decrease in call money, net	33,000	-
Decrease in short-term borrowings, net	(20,000)	-
Issuance of subordinated debentures	-	201,000
Repayment of subordinated current portion of long-term debts	(200,000)	(450,000)
Repayment of subordinated Bonds	(201,500)	-
<b>Net cash used in financing activities</b>	<b>(388,500)</b>	<b>(249,000)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(91,492)</b>	<b>(20,303)</b>
<b>Cash and cash equivalents</b>		
Beginning of the year	136,154	156,457
End of the year	₩ 44,662	₩ 136,154





Competition is  
a pleasant stimulant.  
It offers new opportunities  
to outpace others.  
At Daewoo Securities,  
we pursue  
wholesome growth  
through streamlined teamwork  
within a culture of  
win-win **competition**.  
Whether we fail or succeed,  
trying our utmost is  
what counts.  
We welcome fair **competition**  
wherever our business takes us.  
It's our path to success.

27 notes to non-consolidated financial statements

48 report on the review of internal accounting control system

organization

fy2005 renowned awards

network





**1. The Company**

Daewoo Securities Co., Ltd. (the "Company") was originally incorporated in September 1970 under the name of Dong Yang Securities Co., Ltd. The Company was organized pursuant to the laws of the Republic of Korea to engage in securities trading. In September 1975, the Company's shares were listed on the Korea Stock Exchange, and its outstanding capital stock as of March 31, 2006 amounted to ₩1,020,883 million (Note 23). The Company changed its name to Daewoo Securities Co., Ltd. and merged with Sambo Securities Co., Ltd. on December 19, 1983, and has 116 branches as of March 31, 2006.

Pursuant to the resolution of the Board of Directors in 2000, The Korea Development Bank became the major shareholder of the Company by acquiring all the unsubscribed shares of common stock.

As of March 31, 2006, the Company's major shareholders are as follows:

	Number of shares	Percentage of ownership (%)
The Korea Development Bank	74,309,252	39.09
National Pension Corporation	4,104,796	2.16
Employees	442,206	0.23
Others	111,244,637	58.52
	<b>190,100,891</b>	<b>100.00</b>

Under its Articles of Incorporation, the Company is authorized to issue nonvoting preferred stock up to 50% of its issued common stock (Note 23).

Under its Articles of Incorporation, the Company is authorized to issue convertible debentures and debentures with stock purchase options up to ₩1,200,000 million each. Since the date of incorporation up to March 31, 2006, convertible debentures amounting to ₩150,000 million and subordinated convertible debentures amounting to ₩250,000 million have been issued. Convertible debentures amounting to ₩141,460 million have been converted into common stock, and convertible debentures amounting to ₩8,540 million have been redeemed. In addition, subordinated convertible debentures amounting to ₩250,000 million have been converted into common stock.

Under its Articles of Incorporation, the Company is also authorized to grant stock options to the Company's employees and directors up to 15% of issued common stock. As of March 31, 2006, the number of granted stock options is 447,917 shares (Note 25).

According to the Supervisory Regulation on Securities Companies prescribed by the Korean Securities and Exchange Law, the Company is restricted to own securities issued by related parties, as well as in providing surety obligations or loans to related parties. The Company has not violated these regulations as of March 31, 2006.

**2. Summary of Significant Accounting Policies**

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below:

**Basis of Financial Statement Presentation**

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language(Hangul) in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these non-consolidated financial statements are for use by those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations, or cash flows, is not presented in the accompanying non-consolidated financial statements.

**Accounting Estimates**

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

**Application of the Statements of Korean Financial Accounting Standards**

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. As SKFAS Nos. 10,12 and 13 became applicable to the Company on April 1, 2004, the Company adopted these Standards in its financial statements covering periods beginning on April 1, 2004.

And as SKFAS Nos. 15 through 17 became effective for the Company on April 1, 2005, the Company adopted these Standards in its financial statements for the year ended March 31, 2006.

**Revenue Recognition**

The Company recognizes commissions and trading gains and losses on the contract date.

**Investment Securities**

The cost of trading securities is determined by the moving-average method, and available-for-sale securities sold are stated at market value. If the cost of trading securities and market value of available-for-sale securities are different from the fair value, these are carried at fair value. The amount of the difference is recognized as valuation gains or losses in current operations.

Trading securities, other than bonds and beneficiary certificates, are recorded at the closing price indicated by the relevant stock markets on the balance sheet date. If no closing price exists at the balance sheet date, the most recently available closing price is applied. Bonds are stated at fair value determined using the basic earnings rate published by bond pricing institutions, including the Korea Securities Dealers Association. Beneficiary certificates are stated at net realizable value considering the price published by investment trust management companies.

**Derivatives**

The Company records assets and liabilities related to derivatives in the accompanying balance sheets at market value. Resulting net valuation gains or losses are included in operating revenues or expenses.

Stock index (interest rate) futures are recorded as assets and liabilities in the balance sheets. Losses or gains on the sale or settlement of stock index (interest rate) futures are recorded as operating expenses or revenue.

As of the beginning of the derivative contract, stock index options are stated at their long position or short position value. Losses or gains on the sale of stock index options or valuation of stock index options are recorded as operating expenses or revenue, respectively.

**Structured Securities**

In this year, the Company changed its method of accounting for structured securities transaction. In case of structured securities sold, the difference amount between the fair value and its selling price as of the issuing date is recognized as sales commission on structured securities, and the structured securities liabilities are posted as fair value. And, in case of structured securities purchase, the structured securities assets are posted as purchasing price. In addition, the gain(loss) arising at mid-term redemption day or its maturity is recorded as the gain(loss) on redemption, and the difference between its fair value at the ending date and its book value is recorded as the gain(loss) on valuation. The change in method of accounting for structured securities has no effect on previous net income or shareholder's equity.

**Allowance for Doubtful Accounts**

The Company provides an allowance for doubtful accounts based on the estimated recoverable amount of the accounts. However, if an allowance for doubtful accounts provided pursuant to supervisory regulations enacted by the Korean Financial Supervisory Commission is more than the estimated recoverable amount of the accounts, the Company recognizes the provision computed based on the supervisory regulations.

In accordance with the supervisory regulations provided by the Korean Financial Supervisory Commission, the Company classifies accounts receivable including loans into the following five categories (Note 13).

Classification	Ratio of allowance for bad debts	
Current	Over	0.5%
Precautionary	Over	2%
Substandard	Over	20%
Doubtful	Over	75%
Loss		100%

**Valuation of Assets and Liabilities at Present Value**

Pursuant to the Supervisory Regulations for Securities Companies provided by the Korean Financial Supervisory Commission, if the difference between the nominal value and present value is material, as discounted at an appropriate interest rate, troubled loans restructured unfavorably under workout plans or other similar restructuring agreements are recorded at their present value. Discounts are amortized using the effective interest rate method and recognized as interest income over the term of the related accounts.

**Investment Securities**

Marketable securities and investments in equity and debt securities are initially carried at cost, with cost determined using the moving average method. Investments in non-marketable equity securities of non-controlled investees are reported at cost, except for declines in the Company's proportionate ownership in the underlying book value of the investee which are deemed to be permanent, which are recorded as valuation losses in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment. Accordingly, the Company recorded losses on impairment of available-for-sale securities amounting to ₩115 million and ₩210,572 million for the years ended March 31, 2006 and 2005(Note 10).

Debt securities that do not have a market price are recorded at the discounted future cash flow, which is measured by a reasonable valuation model.

Unrealized holding gains and losses on available-for-sale investments are charged to capital adjustments. The accumulated gains and losses shall be realized when the relevant securities are disposed of or impaired.

Investments in equity securities of companies over which the Company exercises a significant control or influence are recorded using the equity method. The Company records changes in its proportionate equity in the book value of the investee as current operations, capital adjustments or adjustments to retained earnings, according to the corresponding changes in book value of the investee.

The Company discontinues the equity method of accounting for equity-method investees when the Company's share in the accumulated losses of the investees equals the costs of the investments, and until the subsequent cumulative changes in its proportionate net income of the investees equal its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

Losses on impairment on equity method securities are recognized in the statements of operations when the difference between recoverable amounts and carrying value of equity method securities is significant. After recognizing losses on impairment, recoverable amounts of equity method securities are recovered, then recoverable amounts, which should not exceed previous recognized losses on impairment are, recorded as revenue.

Differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investee are amortized over a period up to five years using the straight-line method. When the investee company is consolidated subsidiaries, the difference amount between variation of net assets equity value and purchase price by additional purchasing of shares or paid-in capital increasing of investee company is accounted as capital adjustments (equity method adjustment debit or credit).

Unrealized profit arising from sales by the equity method investees to the Company or sales between equity method investees is also eliminated considering the percentage of ownership. However, when the investee company is consolidated subsidiaries, unrealized profit arising from sales by the Company to equity method investees is fully eliminated.

Foreign currency financial statements of equity method investees are translated into Korean won using the exchange rates in effect as of the balance sheet date for assets and liabilities, and the annual average exchange rates for income and expenses. Any resulting translation gain or loss is included in the capital adjustments account, a component of shareholders' equity.

For some of investments in affiliates, the equity method is applied based on the most recent available unaudited financial statements of affiliates. In this respect, the Company reviewed these unaudited financial statements that significant transactions or accounting events were duly included and assessed in order to verify the reliability of the financial statements. Accordingly, management of the Company believes that the effect of using the unaudited financial statements is adequate for the purpose of accounting these subsidiaries and affiliates based on equity method. If any differences were found subsequently in the audited financial statements of subsidiaries and affiliates, the management of the Company would not expect any material effect on the Company's financial statements.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and impairment on property and equipment. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as described below:

	Estimated useful lives
Buildings	40 years
Vehicles	4 years
Furniture and equipment	4 years

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals, enhancing the value of the assets over their recently appraised value, are capitalized.

The Company assesses the potential impairment of property and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely. The carrying value of the assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets is recorded in current operations up to the cost of the assets, net of accumulated depreciation before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

**Intangible Assets**

Intangible assets are stated at cost, including incidental expenses, net of accumulated amortization. Amortization is computed using the straight-line method over the following estimated useful lives:

	Estimated useful lives
Development costs	4 years
Software	4 years
Others	5 years

An impairment loss on intangible assets is recognized when the book value of the assets exceeds the recoverable value of the assets due to obsolescence and decline in market value (Note 16).

**Foreign Currency Translation** Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rate in effect at the balance sheet date (₩975.9: US\$1 as of March 31, 2006; ₩1,024.3: US\$1 as of March 31, 2005). Resulting exchange gains or losses are recognized in current operations (Note 9).

**Bonds Sold under Repurchase Agreements**

Under the repurchase agreements, the Company recorded bonds sold under repurchase agreements at the amount of bonds sold, and such bonds are included in current liabilities. In addition, the Company recorded the difference between the repurchase price and the price of the bonds sold as interest from bonds sold under repurchase agreements.

Meanwhile, under the resale agreements, the bonds purchased under resale agreements are stated at acquisition cost and are included in current assets. The Company recorded the difference between the bonds' resale price and their acquisition cost as interest from bonds purchased under resale agreements.

**Securities Sold**

When the securities borrowed from the Korea Securities Depository are sold, the Company records the securities sold as liabilities. When the Company repurchases the securities sold as liabilities, the difference between the selling price and the repurchase cost of the securities sold is recognized as short-term gain or losses on disposal of securities. The securities borrowed which are not repurchased are stated at fair market value at the balance sheet date and valuation gains or losses are reported in current operations.

Other short selling of securities not made through the Korea Securities Depository is recorded in the same method as the securities borrowed from the Korea Securities Depository.

**Accrued Severance Benefits** Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Company, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment with the Company as of the balance sheet date.

The Company has made deposits to the National Pension Fund in accordance with the National Pension Funds Law. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheet are presented net of this deposit (Note 20).

**Contingent liability**

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow or inflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability in case of an outflow, or the contingent asset in case of an inflow, is made in the notes to the financial statements.

**Deferred Income Taxes**

The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting and income tax purposes. Deferred tax assets and liabilities are computed on such temporary differences by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. Deferred tax assets are recognized when it is more likely that such deferred tax assets will be realized. The total income tax provision includes the current tax expense under applicable tax regulations, and the change in the balance of deferred tax assets and liabilities during the year. The Company periodically assesses its ability to realize deferred tax assets. In the event of a significant uncertainty regarding the Company's ultimate ability to recover such assets, a valuation allowance is provided to reduce the assets to its estimated net realizable values.

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In accordance with SKFAS No. 16, Deferred Income Tax, which became effective on January 1, 2005, the Company classified deferred tax assets and liabilities into current and non-current, and within each classification, amounts for deferred tax assets and liabilities are offset against each other and presented as net amount. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity account (Note 27).

## Stock Options

Compensation costs for stock options granted to employees and directors are recognized on the basis of intrinsic value. For the year ended March 31, 2006, compensation expense amounted to ₩ 652 million, representing the excess of the estimated fair value over the exercise price of the stock options (Note 25).

## 3. Restricted Cash and Deposits

Restricted cash and deposits as of March 31, 2006 and 2005, consist of the following:

(in millions of Korean won)	2006	2005
Reserve for claims of customers' trust deposits	₩ 1,316,902	₩ 1,091,508
Deposits for futures and options	727	4,147
Long-term deposits	78	79
Collective fund for default loss	9,157	12,729
	<b>₩ 1,326,864</b>	<b>₩ 1,108,463</b>

According to the Regulation on Securities Industry prescribed by the Korean Securities and Exchange Law, the Company is required to deposit with the Korean Securities Finance Corporation (KSFC) and other banks the deposits from customers for the customers' claims.

Long-term deposits are subject to withdrawal restrictions for opening checking accounts under the Investment Advisor Act.

Pursuant to the Korean Securities and Exchange Law, a collective fund for default loss is created to compensate the loss resulting from non-compliance of regulations covering securities listed on the stock exchange.

## 4. Short-Term Investment Securities

Short-term investment securities as of March 31, 2006 and 2005, consist of the following:

(in millions of Korean won)	2006	2005
Stock	₩ 307,303	₩ 121,456
Government and public bonds	2,137,420	1,395,992
Corporate bonds	231,829	270,219
Unsold beneficiary certificates	118,971	197,074
Other beneficiary certificates	5,378	25,788
Negotiable commercial papers	9,020	16,120
Securities in foreign currency	-	2,050
Beneficiary certificates	124,348	-
	<b>₩ 2,830,044</b>	<b>₩ 2,028,699</b>

As of March 31, 2006, certain government and public bonds, and corporate bonds amounting to ₩1,439,179 million (2005: ₩1,052,848 million) are classified as bonds sold under repurchase.

As of March 31, 2006, certain government and public bonds, and corporate bonds amounting to ₩80,711 million (2005: ₩72,050 million) are pledged as collaterals for futures and options trading with Korea Exchange Co. and others. Bonds with a market value of ₩66,119 million and a substitution value of ₩62,751 million are pledged as collateral to Hana Bank and others to guarantee daily borrowing transactions. Stocks and bonds with a market value of ₩138,539 million and a substitution value of ₩127,777 million are pledged with the Korea Securities Depository to guarantee securities borrowing transactions.

After the Daewoo Group bankruptcy in 1999, the Company repurchased beneficiary certificates related to Daewoo Group's bonds from customers which have not been terminated by the investment trust management companies and which amounted to ₩118,971 million as of March 31, 2006. For the valuation of the beneficiary certificates, the Company uses the prices announced by the investment trust management companies. The Company classified those beneficiary certificates as current assets in accordance with the Financial Accounting Standards of the Republic of Korea, as the management of the Company believes that since the beneficiary certificates were evaluated down to their fair value, these would easily be convertible to cash.

**5. Structured Securities and Structured Securities Sold**

The Company uses the long and short position for over-the-counter stock index option as a hedge for equity-linked securities (ELS), and recognized these as warrant securities.

Structured securities and structured securities sold as of March 31, 2006 and 2005, consist of the following:

(in millions of Korean won)	2006	2005
Structured securities		
Warrant securities	₩ 55,718	₩ 16,708
ELS	750,642	555,409
	₩ 806,360	₩ 572,117
Structured securities sold		
Warrant securities sold	₩ 67,361	₩ 29,999
ELS sold	1,356,369	838,683
	₩ 1,423,730	₩ 868,682

**6. Loans Receivable**

The Company's loans receivable as of March 31, 2006 and 2005, consist of the following:

(in millions of Korean won)	2006		
	Gross amount	Allowance for doubtful accounts	Carrying value
Call loans	₩ -	₩ -	₩ -
Brokers' loans	445,086	2,225	442,861
Short-term loans receivable	29	4	25
Other loans receivable	2,787	201	2,586
	₩ 447,902	₩ 2,430	₩ 445,472

(in millions of Korean won)	2005		
	Gross amount	Allowance for doubtful accounts	Carrying value
Call loans	₩ 18,200	₩ -	₩ 18,200
Brokers' loans	128,986	645	128,341
Short-term loans receivable	8	1	7
Other loans receivable	378	189	190
	₩ 147,572	₩ 835	₩ 146,738

**7. Other current assets**

The Company's other current assets as of March 31, 2006 and 2005, consist of the following:

(in millions of Korean won)	2006		
	Gross amount	Allowance for doubtful accounts	Carrying value
Receivables	₩ 169,977	₩ 15,846	₩ 154,131
Accrued income	41,530	4,858	36,672
Advance payments	10,434	-	10,434
Prepaid expenses	5,552	-	5,552
Prepaid income tax	11,002	-	11,002
Derivatives instruments assets	943	-	943
Others	125	-	125
	₩ 239,563	₩ 20,704	₩ 218,859

(in millions of Korean won)	2005		
	Gross amount	Allowance for doubtful accounts	Carrying value
Receivables	₩ 140,351	₩ 17,356	₩ 122,995
Accrued income	28,957	4,086	24,871
Advance payments	12,341	515	11,826
Prepaid expenses	5,168	-	5,168
Prepaid income tax	12,701	-	12,701
Derivatives instruments assets	152	-	152
Others	129	-	129
	₩ 199,799	₩ 21,957	₩ 177,842



**8. Derivatives**

Derivatives as of March 31, 2006 and 2005, consist of the following:

(in millions of Korean won)					2006	Purpose
	Contract amount outstanding	Aggregate gain on valuation	Aggregate loss on Valuation	Valuation amount		
Stock index futures (Short position)	₩ 18,998	₩ -	₩ 96	₩ 19,094	Trading	
Stock index option (Short position)	90	20	7	77	Trading	
Interest rate futures (Short position)	253,613	43	-	253,570	Hedging	
Currency forward (Long position)	22,501	6	751	21,756	Hedging	
Currency forward (Short position)	33,316	826	13	32,503	Hedging	
Stock swap (Long Position)	14,175	108	-	14,283	Hedging	
Stock swap (Short Position)	32,757	2	346	32,413	Hedging	

(in millions of Korean won)					2005	Purpose
	Contract amount outstanding	Aggregate gain on valuation	Aggregate loss on Valuation	Valuation amount		
Stock index futures (Long position)	₩ 1,820	₩ -	₩ -	₩ 1,820	Trading	
Stock index option (Short position)	15	4	-	11	Trading	
Interest rate futures (Short position)	193,000	-	642	193,642	Hedging	
Currency forward (Long position)	15,814	108	35	15,887	Hedging	
Currency forward (Short position)	15,814	35	108	15,887	Hedging	
	1,831	10	5	1,826	Trading	

The interest rate futures contracts are intended to avoid the risk of changes in government bond futures, while the currency forward contracts are intended to avoid the currency exchange fluctuation risks for foreign investment bonds. Stock swap contracts are intended to hedge the price fluctuations of structured securities sold.

As of March 31, 2006, the Company has pledged to Korea Exchange Co. trading securities amounting to ₩86,884 million (2005: ₩80,344 million) on a substitution price as collaterals for futures and options trading.

**9. Assets and Liabilities Denominated in Foreign Currencies**

Assets and liabilities denominated in foreign currencies as of March 31, 2006 and 2005, consist of the following:

(in millions of Korean won, in thousands of U.S. dollars)	2006		2005	
	US\$	₩	US\$	₩
<b>Assets</b>				
Bank deposits	66	65	197	202
Long-term deposits	39	38	38	39
Other receivables	17,606	17,181	-	-
Short-term investment securities	-	-	2,003	2,050
Long-term investment securities	2,686	2,621	1,588	1,480
Other non-current assets	-	-	-	-
Accrued income	960	936	1,512	1,549
	<b>US\$ 21,357</b>	<b>₩ 20,841</b>	<b>US\$ 5,338</b>	<b>₩ 5,320</b>
<b>Liabilities</b>				
Other accounts payable	1,098	1,072	-	-
Accrued expenses	-	-	440	451
	<b>US\$ 1,098</b>	<b>₩ 1,072</b>	<b>US\$ 440</b>	<b>₩ 451</b>

The above assets and liabilities are composed of multiple currencies but are converted into U.S. dollars using the exchange rates in effect as of March 31, 2006 and 2005.



**10. Long-Term Investment Securities**

Long-term investment securities as of March 31, 2006 and 2005, consist of the following:

(in millions of Korean won)	Percentage of Ownership(%) March 31, 2006	2006			2005
		Acquisition cost	Fair value	Book value	Book value
Available for sales					
<b>Non-marketable equity securities</b>					
Daewoo Capital CRV Co., Ltd. <sup>1</sup>	23.97%	28,628	67,240	8,628	60,498
Korea Securities Finance Corp.	4.05%	13,788	21,201	13,788	13,788
Celltrion, inc.	2.16%	8,400	2,580	8,400	-
Korea Exchange	3.23%	2,344	44,205	2,344	2,344
Korea Securities Depository	2.31%	1,217	8,944	1,217	1,217
Koscom (formerly Korea Securities Computer Corp.)	4.07%	1,097	5,095	1,097	1,097
Koreits Co., Ltd.	-	-	-	-	700
Yuongheung Iron and Steel Co., Ltd. <sup>2</sup>	0.99%	1,638	458	292	642
KIDB	7.98%	500	591	500	500
Plus Asset Management	5.00%	500	810	500	500
Others <sup>2</sup>	-	1,747	1,441	978	1,477
		<b>59,859</b>	<b>152,565</b>	<b>57,744</b>	<b>82,763</b>
<b>Marketable equity Securities</b>					
Hynix Semiconductor, Inc	0.93%	53,017	119,720	119,720	75,447
Hanaro Telecom Inc. <sup>2,3</sup>	2.60%	243,352	31,620	31,620	34,380
Cell Biotech Co., Ltd.	-	-	-	-	64
		<b>296,369</b>	<b>151,340</b>	<b>151,340</b>	<b>109,891</b>
<b>Investments in partnerships</b>					
HAN Project	5.00%	250	250	250	-
Asan Baebang	2.00%	263	263	263	-
Stock Market Stabilization Fund	-	-	-	-	12,870
MIC2003-2 Investment Union No.13	-	518	518	518	500
Others	-	1	1	1	1
		<b>1,032</b>	<b>1,032</b>	<b>1,032</b>	<b>13,371</b>
<b>Bonds</b>					
		185,822	181,307	181,307	208,203
<b>Other investments <sup>4</sup></b>					
		5,000	5,018	5,018	-
		<b>₩ 548,082</b>	<b>₩ 491,262</b>	<b>₩ 396,441</b>	<b>₩ 414,228</b>

(in millions of Korean won)	Percentage of Ownership(%) March 31, 2006	2006			2005
		Acquisition cost	Fair value	Book value	Book value
<b>Investments in associates</b>					
<b>Stock</b>					
KDB Asset Management Co., Ltd (formerly Seoul Investment Trust Co., Ltd.)	29.24%	₩ 17,350	₩ 15,983	₩ 15,983	₩ 15,638
Daewoo Securities (Europe) Ltd.	100.00%	18,628	21,825	21,825	21,174
Daewoo Securities (America) Inc.	100.00%	9,621	12,073	12,073	11,166
Daewoo Securities (Hong Kong) Ltd.	100.00%	7,775	18,964	18,964	14,245
Uz Daewoo Bank	-	-	-	-	6,457
Optimal Access Inv.	-	-	-	-	15,162
		<b>53,374</b>	<b>68,845</b>	<b>68,845</b>	<b>83,842</b>
<b>Investments in partnerships</b>					
Daewoo Securities CRV No.1	33.33%	7,000	7,044	7,044	7,032
		<b>₩ 60,374</b>	<b>₩ 75,889</b>	<b>₩ 75,889</b>	<b>₩ 90,874</b>

<sup>1</sup> Even though the Company can exercise significant influence over Daewoo Capital CRV Co., Ltd., this investee is not classified as an equity-method investee in accordance with the Interpretation Example on Korea Financial Accounting Standards 2002-5.

<sup>2</sup> Accumulated impairment loss as of March 31, 2006 and 2005, consist of the following:

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Investee (in millions of Korean won)	Acquisition Cost	Accumulated Amount of Impairment Loss	
		2006	2005
Hanaro Telecom Inc.	₩ 243,352	₩ 204,772	₩ 204,772
Korea Investment & Securities Co., Ltd.	13,928	-	13,928
Yuongheung Iron and Steel Co., Ltd.	3,338	2,963	2,963
Daewoo Finance India	2,717	2,717	2,717
Hyundai Investment & Securities Co., Ltd.	2,598	-	2,598
KP Chemical Co., Ltd.	3,574	1,406	1,406
Keangnam Enterprises Co., Ltd.	764	631	631
Shubur Corp.	518	518	518
Ameth	500	500	500
Tong Yang Orion Investment Securities Co, Ltd.	500	-	500
Koreacondo	498	498	498
Korea ECN Securities Co., Ltd.	800	-	415
Advanced Digital Technology Co., Ltd.	491	369	369
Others	1,017	958	1,033
	₩ 274,595	₩ 215,332	₩ 232,848

<sup>3</sup> The shares of Hanaro Telecom Inc. are provided to Korea Exchange and Korea Securities Depository as collaterals for futures and option sales, and borrowed securities sales.

Except for impaired securities, non-marketable securities were valued at the acquisition value because their fair values could not be reasonably estimated.

In accordance with SKFAS No. 8, the corporate bonds were valued at their fair value. The information used in calculating the fair value are as follows:

(in millions of Korean won)	Face amount	Discount rate	Date of maturity	Valued amount
Daewoo Capital CRV	₩ 112,237	5.32%	Sept. 30, 2006	₩ 110,631
Private Placement Bonds (PPB)				
Master CDO	66,800	5.53-6.79%	Jan. 2, 2007 ~ Dec. 30, 2018	65,055
KorenTech CB	3,000	8.00%	Nov. 24, 2010	3,000
RBS-1 Bonds	1,106	5.29%	Sept. 2014	819
RBS-2 Bonds	2,679	5.46%	May 2014	1,802

<sup>4</sup> The Company's beneficiary securities are valued at their fair values by applying the standard price per share as of March 31, 2006. Details are as follows:

(in millions of Korean won)	Number of Shares	Standard Price	Date of maturity	Valued amount	
Beneficiary securities	KTB Twin Star Mixed Investment Trust	5,000,000	₩1,003.69 per share	Feb. 16, 2009	₩ 5,018

Gains and loss on valuation of available-for-sale investments for the year ended March 31, 2006, consist of:

(in millions of Korean won)	Gain on valuation of available for sale investments			
	Beginning Balance	Increase	Decrease	Ending Balance
Hynix Semiconductor, Inc.	₩ 1,837	₩ 47,156	₩ 634	₩ 48,359
Stock Market Stabilization Fund	12,870	-	12,870	-
KDB Ubiquitous Security 1A	-	90	-	90
KTB Twin Star Mixed Investment Trust	-	13	-	13
	₩ 14,707	₩ 47,259	₩ 13,504	₩ 48,462

(in millions of Korean won)	Loss on valuation of available for sale investments			
	Beginning Balance	Increase	Decrease	Ending Balance
Hanaro Telecom Inc.	₩ 4,200	₩ 846	₩ -	₩ 5,046
Cell Biotech Co., Ltd.	62	-	62	-
Daewoo Capital CRV Private Placement Bonds (PPB)	-	1,164	-	1,164
Master CD	-	67	-	67
RBS bonds	147	83	-	230
	₩ 4,409	₩ 2,160	₩ 62	₩ 6,507

As of March 31, 2006 and 2005, the investment securities in affiliated companies valued using the equity method are as follows:

(in millions of Korean won)							2006
Investee	Beginning balance	Acquisition	Valuation gain (loss)	Retained earnings	Capital adjustment	Dividends, Disposal, Capital reduction	Ending balance
KDB Asset Management Co., Ltd	₩ 15,638	₩ -	₩ 275	₩ 70	₩ -	₩ -	₩ 15,983
Daewoo Securities (Europe) Ltd.	21,174	-	1,715	-	(1,064)	-	21,825
Daewoo Securities (America) Inc.	11,166	-	1,489	-	(582)	-	12,073
Daewoo Securities (Hong Kong) Ltd.	14,245	-	5,602	-	(883)	-	18,964
Uz Daewoo Bank	6,457	-	1,029	(678)	4,462	(11,270)	-
Optimal Access Inv.	15,162	-	(2,534)	-	1,631	(14,259)	-
Daewoo Securities CRV No.1	7,032	-	12	-	-	-	7,044
	₩ 90,874	₩ -	₩ 7,588	₩ (608)	₩ 3,564	₩ (25,529)	₩ 75,889

(in millions of Korean won)							2005
Investee	Beginning balance	Acquisition	Valuation gain (loss)	Retained earnings	Capital adjustment	Dividends, Disposal, Capital reduction	Ending balance
KDB Asset Management Co., Ltd (formerly Seoul Investment Trust Co., Ltd.)	₩ 23,229	₩ -	₩ (1,380)	₩ -	₩ (6,212)	₩ -	₩ 15,638
Daewoo Securities (Europe) Ltd.	23,423	-	408	-	(2,657)	-	21,174
Daewoo Securities (America) Inc.	12,977	-	(386)	-	(1,425)	-	11,166
Daewoo Securities (Hong Kong) Ltd.	16,396	-	(333)	-	(1,818)	-	14,245
Uz Daewoo Bank	7,285	-	805	461	(1,519)	(576)	6,457
Shanghai Woosang Investment Consulting Co., Ltd.	786	-	(129)	-	171	(828)	-
Optimal Access Inv.	12,005	-	4,874	-	(1,717)	-	15,162
Delta Info-Comm. Co., Ltd.	4,187	-	-	-	(99)	(4,088)	-
Daewoo Securities CRV No.1	-	7,000	32	-	-	-	7,032
	₩100,288	₩ 7,000	₩ 3,891	₩ 461	₩ (15,276)	₩ (5,492)	₩ 90,874

For the three affiliates, Daewoo Sec unites Europe, Daewoo Sec unites America, Daewoo Sec unites Hong Kong, the equity method of accounting is applied based on the most recent available unaudited financial statements of affiliates. In this regard, the Company ascertained that the significant transactions and accounting events were included in these unaudited financial statements, and that these statements are reliable. Accordingly, management of the Company believes that the effect of using the unaudited financial statements is adequate for the purpose of accounting these subsidiaries and affiliates using the equity method. If any differences were found subsequently in the audited financial statements of subsidiaries and affiliates, the management of the Company would not expect any material effect on the Company's financial statements.

Changes in gain and loss on valuation of investments in associates recorded as capital adjustment as of March 31, 2006, are as follows:

(in millions of Korean won)	Beginning Balance	Increase	Decrease	Ending Balance
Gain on valuation of investment in associates	₩ 5,790	₩ -	₩ (2,039)	₩ 3,751
Loss on valuation of investment in associates	₩ (10,906)	₩ (489)	₩ 6,092	₩ (5,303)

The summary of the financial information of equity-method investees as of and for the year ended March 31, 2006, follows:

(in millions of Korean won)				2006
	Assets	Liabilities	Sales	Net income
KDB Asset Management Co., Ltd	₩ 61,196	₩ 6,537	₩ 6,054	₩ 940
Daewoo Securities (Europe) Ltd.	29,408	7,581	5,345	1,715
Daewoo Securities (America) Inc.	12,584	511	2,673	1,489
Daewoo Securities (Hong Kong)	20,129	1,165	3,503	5,602
Daewoo Securities CRV No.1	21,319	187	456	35

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11. Long-term loans receivable balances as of March 31, 2006 and 2005, are as follows:

**Long-Term Loans Receivable**

(in millions of Korean won)	2006		
	Gross amount	Allowance for doubtful accounts	Carrying value
Long-term loans receivable	₩ 9,469	₩ 1,009	₩ 8,460

(in millions of Korean won)	2005		
	Gross amount	Allowance for doubtful accounts	Carrying value
Long-term loans receivable	₩ 13,753	₩ 1,030	₩ 12,723

12. Troubled loans as of March 31, 2006 and 2005, consist of the following:

**Troubled Loans**

(in millions of Korean won)	2006		
	Gross Amount	Allowance for Doubtful Accounts	Carrying Value
Advances for customers			
Advances for payment on bonds guarantee	₩ 102,003	₩ 97,410	₩ 4,593
Advances for payment on loss compensation	17,628	16,729	899
Advances for payment for others	8,362	8,362	-
Dishonored bonds	15,995	15,995	-
Dishonored bills receivable	122	122	-
Others	7,551	7,506	45
	<b>₩ 151,661</b>	<b>₩ 146,124</b>	<b>₩ 5,537</b>

(in millions of Korean won)	2005		
	Gross Amount	Allowance for Doubtful Accounts	Carrying Value
Advances for customers			
Advances for payment on bonds guarantee	₩ 111,206	₩ 103,483	₩ 7,723
Advances for payment on loss compensation	7,926	6,989	937
Advances for payment for others	8,786	8,486	300
Dishonored bonds	16,059	16,059	-
Dishonored bills receivable	122	120	2
Others	20,253	20,208	45
	<b>₩ 164,352</b>	<b>₩ 155,345</b>	<b>₩ 9,007</b>

13. Pursuant to supervisory regulations provided by the Korean Financial Supervisory Commission, the Company classifies receivables, including loans to customers, into the following five categories, and provides an allowance for bad debts for each classification. The details as of March 31, 2006 and 2005, are as follows:

**Allowances for Bad Debts**

(in millions of Korean won)	2006					
	Current	Precautionary	Substandard	Doubtful	Loss	Total
Loans to customers	₩ 445,086	₩ -	₩ -	₩ -	₩ -	₩ 445,086
Short-term loans	25	-	-	-	4	29
Accounts receivable from customers	93,844	-	-	2,100	13,802	109,746
Accrued income	36,856	-	-	-	4,674	41,530
Other loans	2,409	-	378	-	-	2,787
Long-term loans	8,502	-	-	-	966	9,468
Advances for customers	-	-	6,053	-	121,940	127,993
Dishonored bill receivable	-	-	-	-	122	122
Dishonored bonds	-	-	-	-	15,995	15,995
Others (investment assets)	-	-	-	-	7,506	7,506
	<b>₩ 586,722</b>	<b>₩ -</b>	<b>₩ 6,431</b>	<b>₩ 2,100</b>	<b>₩ 165,009</b>	<b>₩ 760,262</b>

According to the regulations for security businesses, the accrued income arising from the typical transaction amounting to ₩60,231 million is not included in the review of bad debts.

(in millions of Korean won)						2005
	Current	Special mention	Substandard	Doubtful	Loss	Total
Loans to customers	₩ 128,983	₩ -	₩ 3	₩ -	₩ -	₩ 128,986
Short-term loans	7	-	-	-	1	8
Accounts receivable from customers	70,076	-	-	257	16,812	87,145
Accrued income	24,996	-	-	-	3,961	28,957
Other loans	-	-	378	-	-	378
Advance payments	-	-	737	-	-	737
Long-term loans	12,787	-	-	-	966	13,753
Advances for customers	715	1,815	7,729	8,786	108,874	127,919
Dishonored bill receivable	-	6	-	-	116	122
Dishonored bonds	-	-	-	-	16,059	16,059
Others (investment assets)	-	-	-	-	20,208	20,208
	₩ 237,564	₩ 1,821	₩ 8,847	₩ 9,043	₩ 166,997	₩ 424,272

The allowance for doubtful accounts and its percentage to total receivables as of the end of the last three years are as follows:

(in millions of Korean won)	Receivable balances	Allowance for doubtful accounts <sup>1</sup>	Ratio
Year end			
March 31, 2004	₩ 342,506	₩ 190,988	55.76%
March 31, 2005	424,272	179,167	42.23%
March 31, 2006	760,262	170,267	22.40%

<sup>1</sup> The amount includes the present value discount account.

**14. Present Value Discount Account**

Pursuant to the Supervisory Regulations for Security Companies provided by the Korean Financial Supervisory Commission, if the difference between the nominal value and present value, as discounted at an appropriate interest rate, is material, troubled loans restructured unfavorably under workout plans or other similar restructuring agreements are recorded at their present value, with the difference between the nominal value and present value presented as an allowance account.

As of March 31, 2006 and 2005, troubled loans and investments, which were restructured by reorganization plans approved by the court or agreed to by creditors, consist of the following:

(in millions of Korean won)					2006
	Period	Discount rate (%)	Nominal value	Present value	Difference
Advances from customers	January 1999 ~ December 2008	10.0~ 11.0	₩ 4,966	₩ 4,360	₩ 606

(in millions of Korean won)					2005
	Period	Discount rate (%)	Nominal value	Present value	Difference
Advances from customers	January 1999 ~ December 2009	10.0~11.0	₩ 6,745	₩ 5,707	₩ 1,038
Dishonored bills receivable	September 2000 ~ December 2010	14.0	6	2	4
			₩ 6,751	₩ 5,709	₩ 1,042

**15. Property and Equipment**

Changes in property and equipment for the years ended March 31, 2006 and 2005, are as follows:

(in millions of Korean won)					2006
	Beginning balance	Acquisition	Disposal	Depreciation	Ending balance
Land	₩ 124,105	₩ -	₩ (5,955)	₩ -	₩ 118,150
Buildings	108,428	-	(10,340)	(3,248)	94,840
Vehicles	42	-	-	(16)	26
Furniture and equipment	16,685	11,691	(255)	(8,823)	19,298
Others	174	-	-	-	174
	₩ 249,434	₩ 11,691	₩ (16,550)	₩ (12,087)	₩ 232,488



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(in millions of Korean won)					2005
	Beginning balance	Acquisition	Disposal	Depreciation	Ending balance
Land	₩ 128,627	₩ 2	₩ (4,524)	₩ -	₩ 124,105
Buildings	116,019	120	(4,312)	(3,399)	108,428
Vehicles	30	31	-	(19)	42
Furniture and equipment	17,803	8,291	(89)	(9,320)	16,685
Others	174	-	-	-	174
	₩ 262,653	₩ 8,444	₩ (8,925)	₩ (12,738)	₩ 249,434

As of March 31, 2006 and 2005, accumulated depreciation is distributed as follows:

	2006	2005
Accumulated depreciation of buildings	₩ 25,958	₩ 25,066
Accumulated depreciation of vehicles	40	24
Accumulated depreciation of furniture and equipment	131,361	132,668
	₩ 157,359	₩ 157,758

As of March 31, 2006, the value of the Company's land, as announced by the Korean local government for property tax assessment purposes, is approximately ₩112,692 million (2005: ₩113,799 million).

As of March 31, 2006, a portion of Company's buildings is leased to The Korea Development Bank and pledged as collateral for the guarantee for rent liabilities, up to a maximum of ₩32,355 million.

In accordance with the Asset Revaluation Law, the Company revalued a substantial portion of its property and equipment on July 1, 1998. The asset revaluation surplus amounting to ₩101,623 million was recognized and offset against accumulated deficit during the year ended March 31, 2000.

As of March 31, 2006, buildings are insured against fire and other casualty losses up to approximately ₩124,025 million.

#### 16. Intangible Assets

Changes in intangible assets for the year ended March 31, 2006 and 2005, are as follows:

(in millions of Korean won)				2006
	Development costs	Software	Others	Total
Beginning balance	₩ 3,460	₩ 2,511	₩ 101	₩ 6,072
Acquisition	786	799	-	1,585
Amortization	(1,648)	(1,151)	(101)	(2,900)
Ending balance	₩ 2,598	₩ 2,159	₩ -	₩ 4,757
Accumulated amortization	₩ 11,284	₩ 4,591	₩ 503	₩ 16,378

(in millions of Korean won)				2005
	Development costs	Software	Others	Total
Beginning balance	₩ 5,497	₩ 2,129	₩ 201	₩ 7,827
Acquisition	1,161	1,657	-	2,818
Amortization	(3,198)	(1,275)	(100)	(4,573)
Ending balance	₩ 3,460	₩ 2,511	₩ 101	₩ 6,072
Accumulated amortization	₩ 9,636	₩ 3,440	₩ 402	₩ 13,478

For the year ended March 31, 2006, the Company recorded amortization of intangible assets amounting to ₩2,900 million (2005: ₩4,573 million) as a selling and administrative expense.

#### 17. Short-Term Borrowings

Short-term borrowings as of March 31, 2006 and 2005, consist of the following:

(in millions of Korean won)	Present annual interest rate (%)	2006	2005
		₩ 33,000	₩ -
Call money	4.10	₩ 33,000	₩ -
Borrowings from Korean Securities Financial Corporation	-	-	₩ 20,000
		₩ 33,000	₩ 20,000

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18. Deposits from customers as of March 31, 2006 and 2005, consist of the following:

### Deposits from Customers

(in millions of Korean won)	2006	2005
Customers' deposits for brokerage	₩ 1,274,646	₩ 1,019,636
Customers' deposits for futures and options trading	87,686	84,104
Customers' deposits for subscriptions	28,998	-
Customers' deposits for savings	31,367	35,817
Customers' deposits for beneficiary certificates	3,375	2,862
Others	1,596	2,533
	<b>₩ 1,427,668</b>	<b>₩ 1,144,952</b>

19. Debentures and long-term borrowings as of March 31, 2006 and 2005, consist of the following:

### Debentures and Long-Term Borrowings

(in millions of Korean won)	Annual interest rate (%)	Maturity	2006	2005
Debentures and Subordinated debentures	4.5	November 18, 2007	₩ 1,000	₩ 401,000
Less: Current portion of long-term debts			-	(200,000)
			<b>₩ 1,000</b>	<b>₩ 201,000</b>

Details of debentures as of March 31, 2006, consist of the following:

(in millions of Korean won)	Issue Price	Amount	Annual interest rate (%)	Creditor
32nd bond	₩ 1,000	₩ 1,000	Fixed rate (4.50)	Public offering

20. Changes in accrued severance benefits for the years ended March 31, 2006 and 2005, are as follows:

### Accrued Severance Benefits

(in millions of Korean won)	2006	2005
Beginning balance	₩ 36,259	₩ 32,743
Provisions	15,093	13,330
Severance payments	(4,264)	(9,814)
	47,088	36,259
Less: Deposits to the National Pension Fund	(292)	(313)
	<b>₩ 46,796</b>	<b>₩ 35,946</b>

21. Changes in provisions for the years ended March 31, 2006 and 2005, are as follows:

### Provisions

(in millions of Korean won)	2006	2005
Beginning balance	₩ 43,293	₩ 2,800
Provision	21,967	40,633
Reverse	(5,601)	(140)
Ending balance	<b>59,659</b>	<b>43,293</b>

The Company recorded the contingent loss for the pending lawsuits as provisions.

22. As of March 31, 2006, the borrowing agreements between the Company and the financial institutions are as follows:

### Commitments and Contingencies

(in millions of Korean won)	Agreements	Financial institutions	Interest rate	Limit
Bank overdraft	Shinhan Bank and others	0.4 ~ 0.8%	₩ 185,000	
Margin borrowings	Korea Securities Finance	4.70%	₩ 234,100	
General borrowings	Korea Securities Finance	Average CD current yield before three business dates and to public lending date by the Security Business Association + 0.25%/year	Total of ₩1,530,000 and balance of trust deposits	
Financial protective loans	Korea Securities Finance	Average CD current yield of the prior month to public lending date by the Security Business Association + 1.5%/year	₩ 300,000	
Other borrowings	Korea Securities Finance	NEGO interest rate and 3%	Total of ₩500,000 and balance of subscription deposits	

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The Company has entered into foreign currency forward contracts agreement with The Korea Development Bank and others to hedge the exposure to changes in foreign exchange rates. Forward contracts outstanding as of March 31, 2006, are as follows:

Position	Contract numbers	Contract amount	Contract Rate <sup>1</sup>	Contract date	Due date
Long	7	US\$ 22,459,813	1,001.81	December 27, 2005	May 22, 2006
				~March 27, 2006	~September 27, 2006
Short	4	US\$ 33,530,150	993.6	July 20, 2005	April 17, 2005
				~March 27, 2006	~September 27, 2006

<sup>1</sup> Weighted-average contract rate.

As of March 31, 2005, the Company contracted 2,347 treasury bond futures and 216 stock index futures. For the year ended March 31, 2006, the Company recognized losses on settlement of futures amounting to ₩96 million and gains on settlement of futures amounting to ₩43 million. In addition, the Company contracted 1,350 stock index options as of March 31, 2006. For the year ended March 31, 2006, the Company recognized gain on valuation of options amounting to ₩20 million and loss on valuation of options amounting to ₩7 million.

As of March 31, 2006, the Company is a defendant in a number of cases with total claims of ₩119,202 million, excluding the claims for the compensation loss on the beneficiary certificates mentioned below. The ultimate outcome of the cases cannot presently be determined and accordingly, no adjustment has been made in the accompanying non-consolidated financial statements. The Company has a provision for possible losses from these lawsuits amounting to ₩31,031 million.

As of March 31, 2006, the Company has appealed the decision of a lower court on a case filed by 13 financial institutions regarding their demand that the Company redeem beneficiary certificates amounting to ₩600,798 million at their carrying value, which the Company rejected and instead offered to redeem the certificates at their fair value. These certificates' value declined, causing the fair value to be lower than its carrying value. The Company argued that according to the Investment Trust Act, it is the customer who should bear any loss from these certificates. During the previous year, the Company recognized losses recorded as non-operating expenses, based on a lower court's decision ordering the Company to redeem the certificates at their carrying value. Although the Company has appealed this decision, a provision for losses from this case amounting to ₩24,645 million was recognized during the year ended March 31, 2006. As the ultimate outcome of this appeal cannot yet be presently determined, no adjustment has been made to the non-consolidated financial statements.

As of March 31, 2006, an US\$ 87 million case filed by the Company against the Korea Investment Trust Management and Securities Company regarding the Company's claim for a performance of an obligation related to certain offshore funds, is pending on an appeal by the defendant. As the initial court decision handed down on March 18, 2004, was favorable to the Company, it recognized a ₩57,117 million income for the year ended March 31, 2004, representing the difference between the amount partially collected and the book value of the right being claimed on the offshore funds.

For the year ended March 31, 2006, Daewoo Securities Europe Ltd., a subsidiary, recorded a provision for losses of ₩20,400 million for a case filed by Chohung Bank against it regarding certain transactions on offshore funds. The bank is claiming for accrued interest of US\$14,600,000. As of balance sheet date, this case is still pending.

During the year ended March 31, 2004, the Company entered into the contract for the sale of the shares of stock and the transfer of the right of management related to Daewoo Bank (Hungary) Ltd. ("DBH") with The Korea Development Bank. According to the contract, the Company will provide guarantees for a certain portion of contingent losses arising from off-balance sheet liabilities ("ordinary contingent liabilities") of DBH for two years from the date of the transfer of management. Under the contract, the Company should provide the whole amount of guarantees for losses arising from off-balance sheet liabilities due to DBH's intentional or material negligence, and the excess amount over HUF 2,500,000 per transaction due to unintentional or immaterial negligence. In addition, as for contingencies ("specific contingent liabilities") agreed upon in the contract, the Company should settle the difference between the fixed amount of losses and the allowance provided amounting HUF 970,275,000 when the contingent situations cease to exist.

As of March 31, 2006, the case on the nullification of the Company's 12 checks is still pending.

The Company started its trust business in the current year after obtaining approval from the Financial Supervisory Service. As of March 31, 2006, the Company is not engaged in selling any trust instruments which carry guarantees for principal amount recovery or achieving a specific rate of return. Therefore, as the Company has no trust assets and liabilities, these are not disclosed in the notes as required under the Korean generally accepted accounting principles.

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### 23. Capital Stock and Capital Surplus

Detail of capital stock and capital surplus as of March 31, 2006, are as follows:

(in millions of Korean won)				
Number of shares		Capital stock		Capital surplus
Common stock	Preferred stock	Common stock	Preferred stock	(Paid-in capital in excess of par value)
190,100,891	14,075,750	₩ 950,504	₩ 70,379	₩ 222,361

Preferred stock is non-participating, non-cumulative and non-voting. The Company can issue preferred stock that can be converted into common stock within a limited period of time.

### 24. Retained Earnings

Retained earnings as of March 31, 2006 and 2005, consist of the following:

(in millions of Korean won)	Reference	2006	2005
Reserve for financial structural improvement	(A)	4,000	4,000
Unappropriated		479,545	69,729
		<b>₩ 483,545</b>	<b>₩ 73,729</b>

(A) In accordance with the resolution of the Company's Board of Directors dated May 27, 2005, the Company transferred reserve for losses on securities transactions amounting to ₩16,148 provided as a reserve for loss on futures trading.

Details of dividends are as follows:

	Common stock	Preferred stock	Total
Number of shares	190,100,891	14,075,750	204,176,641
Treasury stock	(37)	(1,796,320)	(1,796,357)
	190,100,854	12,279,430	202,380,284
Dividend rate	8.00%	8.80%	
Dividends	₩ 76,040,341,600	₩ 5,402,949,200	₩ 81,443,290,800

Dividend information follows:

Dividend / Net income	19.84%
Dividend rate per share for common stock / Stock price <sup>1</sup>	2.65%
Dividend rate per share for preferred stock / Stock price <sup>1</sup>	3.83%

<sup>1</sup> The dividend earnings rate is the dividend rate per share divided by the average of the closing prices for the past week from two business days before March 29, 2006, the closing date of shareholders' list.

### 25. Stock Options

The Company granted stock options to some of its directors and employees are as follows:

	1st	2nd	3rd
Grant dates	June 2000	August 2001	September 2005
Option type	Distribution of cash	Distribution of cash	Distribution of cash
Number of options granted	340,000	98,000	400,000
Number of options lapsed	280,000	88,000	22,083
Number of options as of the balance date	60,000	10,000	377,917
Condition	Engagement until June 2003	Engagement until August 2003	Engagement until September 2007
Exercise price per share	₩ 7,000	₩ 8,900	₩ 14,000 + variable price
Period of exercise	June 3, 2003 – June 2, 2010	August 24, 2003 – August 23, 2008	September 22, 2007 – September 21, 2012

As the type of stock option changed from the issuance of new shares of stock or the distribution of cash to the distribution of cash pursuant to the resolution made by the Board of Directors held on June 18, 2003, the method of estimating compensation costs also changed from the fair value basis method to the intrinsic value basis method. For the yearended March 31, 2006, compensation expense amounting to ₩ 652 million, representing the excess of the estimated fair value over the exercise price of the stock options, was recognized.

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### 26. Capital Adjustments

Capital adjustments as of March 31, 2006 and 2005, are as follows:

(in millions of Korean won)	2006	2005
Treasury stock	₩ (32,970)	₩ (32,970)
Gain on valuation of available for sale investments (Note 9)	48,462	14,707
Loss on valuation of available for sale investments	(6,507)	(4,409)
Gain on valuation of investments in associates	3,751	5,790
Loss on valuation of investments in associates	(5,303)	(10,906)
	₩ 7,433	₩ (27,788)

As of March 31, 2006, the Company owned 1,796,320 shares of preferred stock as treasury stock.

### 27. Income Taxes

Income tax benefit for the years ended March 31, 2006 and 2005, follows:

(in millions of Korean won)	2006	2005
Current income taxes	₩ -	₩ -
Changes in deferred income taxes	(15,914)	-
Income tax benefit	₩ (15,914)	₩ -

The details of deferred taxes as of and for the years ended March 31, 2006 and 2005, are as follows:

(in millions of Korean won)	2006				Deferred income tax assets <sup>1</sup>
	Beginning balance	Increases	Decreases	Ending balance	
Accrued interest receivables	₩ (18,302)	₩ (26,284)	₩ (18,302)	₩ (26,284)	₩ (7,228)
Gain on valuation of trading securities	(118,960)	(23,839)	(5,016)	(137,783)	(37,890)
Loss on valuation of trading securities	126,933	16,544	14,977	128,500	35,337
Loss on impairment of investment securities	254,168	115	40,717	213,566	58,731
Loss on contingency provision	43,292	22,699	6,316	59,675	16,410
Present value discount account	1,041	-	435	606	166
Affiliated company securities	(25,719)	(8,049)	-	(33,768)	(9,286)
Land revaluation surplus	(44,809)	-	(525)	(44,284)	(12,179)
Accrued severance benefits	23,427	5,286	-	28,713	7,897
Gain on valuation of structured securities	14,293	(27,273)	14,293	(27,273)	(7,500)
Loss on valuation of structured securities sold	(35,378)	111,522	(35,378)	111,522	30,669
Others	16,738	19,728	781	35,685	9,815
Accumulated temporary differences	236,524	90,449	18,098	308,875	84,942
Deferred income taxes directly reflected to shareholders' equity	(10,298)	(47,571)	-	(57,869)	-
Operating loss carry forwards	592,610	-	473,590	119,020	32,731
	₩ 818,836	₩ 42,878	₩ 491,688	₩ 370,026	117,673
Less : Valuation allowance					(117,673)
					₩ -

<sup>1</sup> Deferred income taxes as of March 31, 2006, were calculated based on the 27.5% corporate income tax rate.

Deferred income tax liabilities were offset against deferred income tax assets in accordance with SKFAS No. 16.



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(in millions of Korean won)					2005
	Beginning balance	Increases	Decreases	Ending balance	Deferred income tax assets
Accrued interest receivables	₩ (14,057)	₩ (18,302)	₩ (14,057)	₩ (18,302)	(5,033)
Gain on valuation of trading securities	(134,501)	(8,371)	(23,912)	(118,960)	(32,714)
Loss on valuation of trading securities	103,189	26,198	2,454	126,933	34,906
Loss on impairment of investment securities	43,806	210,572	210	254,168	69,896
Gain on valuation of investment securities (stock market stabilization fund)	(8,425)	-	(8,425)	-	-
Loss on contingency provision	2,800	40,492	-	43,292	11,905
Present value discount account	3,611	-	2,570	1,041	286
Affiliated company securities	(17,231)	(3,465)	5,023	(25,719)	(7,073)
Land revaluation surplus	(46,818)	-	(2,009)	(44,809)	(12,323)
Allowance for payment guarantees	62	-	62	-	-
Accrued severance benefits	19,268	4,159	-	23,427	6,443
Gain on valuation of structured securities	(1,973)	14,293	(1,973)	14,293	3,931
Loss on valuation of structured securities sold	4,526	(35,578)	4,526	(35,578)	(9,784)
Others	5,635	984	179	6,440	1,773
Accumulated temporary differences	(40,108)	230,982	(35,352)	226,226	62,213
Operating loss carry forwards	898,500	-	305,890	592,610	162,968
	₩ 858,392	₩ 230,982	₩ 270,538	₩ 818,836	225,181
Less : Valuation allowance					(225,181)
				₩	-

Due to the uncertainty of the Company's future operations, management concluded that the Company will not realize all benefits of the loss carryforwards. Accordingly, a valuation allowance amounting to ₩117,673 million (2005: ₩225,181 million) has been provided against these deferred tax assets as of March 31, 2006.

The expiration of temporary differences and operating loss carryforwards that were not recognized as deferred income tax assets as of March 31, 2006, are as follows:

(in millions of Korean won)	Temporary difference and others	Deferred income tax assets	Carryforward expiration
Deferred tax assets			
from temporary differences	₩ 308,875	₩ 84,942	-
Deferred tax assets from undisposed accumulated deficit			
March 31, 2003	18,795	5,169	March 31, 2007
March 31, 2004	72,822	20,026	March 31, 2008
March 31, 2005	27,403	7,536	March 31, 2009
	₩ 119,020	₩ 32,731	

**28. Earnings (Loss) Per Share** Earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding for the years ended March 31, 2006 and 2005. Ordinary income (loss) per share is computed by dividing ordinary income (loss), after the adjustment from extraordinary gains or losses and related income taxes, by the weighted-average number of common shares outstanding for the years ended March 31, 2006 and 2005.

Ordinary income (loss) per share and earnings (loss) per share for the years ended March 31, 2006 and 2005, are calculated as follows:

(in Korean won)	2006	2005
Net ordinary income (loss) after income tax <sup>1</sup>	₩ 410,423,490,562	₩ (148,941,189,035)
Dividend on preferred stock	(5,402,949,200)	-
Ordinary income (loss)	405,020,541,362	(148,941,189,035)
Weighted-average number of common shares outstanding <sup>2</sup>	190,100,891	190,100,891
Ordinary income (loss) per share	₩ 2,131	₩ (783)

<sup>1</sup> Since there were no extraordinary gains or loss, basic ordinary income(loss) per share is identical to basic earnings(loss) per share.

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<sup>2</sup>The treasury stocks which the Company temporarily possesses owing to the sale of odd-lot stocks are not included when calculating the weighed-number of common shares. In this regard, the weighed-number of common stock for 2006 and 2005 is the same as the total number of common stock issued.

As dilutive securities have no dilutive effect, diluted earnings (loss) per share is identical to basic earnings(loss) per share and the diluted ordinary income(loss) per share to the basic ordinary income(loss) per share.

The diluted securities outstanding for the year ended March 31, 2006, are as follows:

	Exercise Price Per share	Period of Exercise	Number of Shares to be Issued
Stock options	₩ 7,000	From June 3, 2003 to June 2, 2010	60,000
Stock options	8,900	From August 24, 2003 to August 23, 2008	10,000
Stock options	14,000 + variable price	From September 22, 2007 to September 21, 2012	377,917

### 29. Related Party Transactions

Significant transactions with related parties for the years ended March 31, 2006 and 2005, and the related balances as of March 31, 2006 and 2005, are summarized as follows:

(in millions of Korean won)	2006			
	Revenue	Expenses	Receivables	Payables
Daewoo Securities (Europe) Ltd.	₩ -	₩ 1,228	₩ -	₩ 103
Daewoo Securities (America) Inc.	-	2,549	-	197
Daewoo Securities (Hong Kong) Ltd.	-	1,026	-	58
The Korea Development Bank	6,589	9,864	154,019	15,585
	₩ 6,589	₩ 14,667	₩ 154,019	₩ 15,943

(in millions of Korean won)	2005			
	Revenue	Expenses	Receivables	Payables
Daewoo Securities (Europe) Ltd.	₩ -	₩ 784	₩ -	₩ 64
Daewoo Securities (America) Inc.	-	1,658	-	117
Daewoo Securities (Hong Kong) Ltd.	-	1,106	-	187
Optimal Access Inv	117	-	-	-
Pacific portfolio investment (L) Ltd.	48	-	-	-
The Korea Development Bank	6,123	13,722	82,743	407,529
	₩ 6,288	₩ 17,270	₩ 82,743	₩ 407,897

### 30. Value Added Information

Value added information for the years ended March 31, 2006 and 2005, consists of the following:

(in millions of Korean won)	2006	2005
Wages and salaries	₩ 97,775	₩ 85,676
Provision for severance benefits	15,093	13,330
Employee benefits	136,398	60,679
Rent	16,016	14,974
Depreciation	12,087	12,738
Taxes and dues	19,968	8,478
	₩ 297,337	₩ 195,875

### 31. Selling and Administrative Expenses

Selling and administrative expenses for the years ended March 31, 2006 and 2005, are the following:

(in millions of Korean won)	2006	2005
Salaries	₩ 97,775	₩ 85,676
Other benefits for employees	136,398	60,679
Computer system operation expenses	18,494	21,926
Rental expenses	16,016	14,974
Advertising expenses	13,199	12,474
Depreciation	12,087	12,738
Credit loss expense	7,203	8,235
Others	88,540	65,586
	₩ 389,712	₩ 282,288



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32. Significant operation results for the three-month periods ended March 31, 2006 and 2005, are as follows:

**Operating Results for  
the Final Interim Period**

(in millions of Korean won)	2006	2005
Operating income	₩ 574,492	₩ 270,041
Operating income, net	117,209	63,967
Ordinary income	100,422	37,532
Net income	93,957	37,532
Ordinary income per share (in Korean won)	494	197
Earnings per share (in Korean won)	494	197

33. Significant transactions not affecting cash flows for the years ended March 31, 2006 and 2005 are as follows:

**Supplemental  
Cash Flow Information**

(in millions of Korean won)	2006	2005
Retirement of advance payment	₩ 514	₩ -
Reclassification from available-for-sale securities to other non-current assets	-	267
Reclassification from other non-current assets to available-for-sale securities	-	15,066
Write-off of other non-current assets	15,154	17,957
Write-off of accrued income	-	49
Reclassification from advanced payment to development costs	70	493
Reclassification from guarantee deposits to receivables	-	1,578
Reclassification from other non-current assets to Advances for customers	-	28,394
Reclassification from advance payment to guarantee for rent	2,250	-
Reclassification from advance payment to software	30	-
Reclassification from marketable securities to available-for-sales investments	72,480	-
Reclassification of subordinated bonds	-	200,000
	₩ 90,498	₩ 263,804

**34.  
Restatement of  
the Prior Year  
Financial Statements**

According to the accounting principles of mergers and acquisitions, in the sale of equity-method investments between the parent company and its subsidiaries, the difference between the investment's book value and the price paid is recorded as a change in capital surplus. In 2003, however, when the Company sold its equity-method investments in Daewoo Bank (Hungary) Ltd. to its parent company, The Korea Development Bank, the Company recorded the difference as loss on sale of investment, rather than as a change in capital surplus. Consequently, the Company's capital surplus as of March 31, 2003, was overstated by ₩24,155 million, and its retained earnings on the same date, was understated by the same amount. The Company therefore, restated its financial statements as of March 31, 2004, to correct the said under- and overstatements, as these were carried forward from the March 31, 2003 balances.

Details of the restatements are as follows:

(in millions of Korean won)	
Capital surplus	₩ (24,155)
Retained earnings	24,155
	₩ -

The Company's ordinary loss, net loss and ordinary loss per share in 2003 recalculated with regard to the effect of the restatement are as follows:

(in millions of Korean won)	Before restatement	After restatement
Ordinary loss	₩ 60,355	₩ 36,240
Net loss	₩ 60,395	₩ 36,280
Ordinary loss per share	₩ 318	₩ 191
Net loss per share	₩ 318	₩ 191

35. The accompanying non-consolidated financial statements as of and for the year ended March 31, 2006, will be approved by the Board of Directors on May 9, 2006.

**Approval of  
Financial Statements**

**36. Reclassification of prior year financial statement presentation**

Certain amounts in the non consolidated financial statements as of and for the year ended March 31, 2005, have been reclassified to conform to the March 31, 2006 financial statement presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

**37. Additional disclosures required by Enforcement Decree of Regulation on Supervision of securities**

(in millions of Korean won)	2006	2005
Securities in custody		
Trustor securities in custody	₩ 48,203,703	₩ 28,503,133
Saver securities in custody	258,609	266,219
Beneficiary securities in custody	6,473,903	4,629,815
Others	753,145	117,536
	₩ 55,689,361	₩ 33,516,703
Negotiable certificates of deposits in custody	₩ 221,665	₩ 16,867
Deposits in foreign currencies on exchange	₩ 1,222	₩ 3,585
Undistributed reserve for claims of customers' deposits	₩ 7,602	₩ -
Derivatives contracts		
Contracts on interest rates		
Contracts on interest rate futures sold	253,613	193,000
	₩ 253,613	₩ 193,000
Contracts on currencies		
Contracts on currency forwards purchased	22,501	15,814
Contracts on currency forwards sold	33,316	17,645
	₩ 55,817	₩ 33,459
Contracts on stock and stock index		
Contracts on stock and stock index futures purchased	-	1,820
Contracts on stock and stock index futures sold	18,998	-
Contracts on stock and stock index swap purchased	14,175	-
Contracts on stock and stock index swap sold	32,757	-
Contracts on stock and stock index options sold	90	15
	66,020	1,835
	₩ 375,449	₩ 228,294
Lending and borrowing securities		
Lending securities in the form of stocks	56,485	18,599
Borrowing securities in the form of stocks	52,118	18,599
	₩ 108,603	₩ 37,198
Receivables written-offs	₩ -	₩ 5,230





To the President of  
Daewoo Securities Co., Ltd.

We have reviewed the management's report on the operations of the internal accounting control system ("IACS") of Daewoo Securities Co., Ltd. (the "Company") as of March 31, 2006. In accordance with Article 2-2 of the Act on External Audit for Stock Companies (the "External Audit Law") of the Republic of Korea, the Company's management is responsible for reporting on the design and operations of its IACS ("IACS report"). Our responsibility is to review the management's the IACS report and issue a report based on our review.

We conducted our review in accordance with Article 2-3 of the External Audit Law. Our review included inquiries of management and employees, inspection of related documents and check of the operations of the Company's IACS. We did not perform an audit of the Company's IACS and accordingly, we do not express an audit opinion.

Based on our review, no material weakness in the design or operations of the Company's IACS under Article 2-2 of the External Audit Law as of March 31, 2006, has come to our attention.

This report applies to the Company's IACS in existence as of March 31, 2006. We did not review the Company's IACS after March 31, 2006. This report has been prepared for Korean regulatory purposes pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

As this report is based on Interim Guidelines on Auditors' Review and Report on Management's IACS Report, issued by the Korean Audit Standards Committee on March 29, 2005, it applies only from that date until the date the Final Standards for Management's IACS Report and the Final Standards for Auditors' Review and Report on Management's IACS Report become effective. A review based on the final standards may have different results and accordingly, the content of any updated report may be different.

Samil PricewaterhouseCoopers  
April 21, 2006

This report is annexed in relation to the audit of the financial statements as of March 31, 2005, and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.



# organization

Shareholder's Meeting — Board of Directors — CEO & President

- 19 Divisions
- 5 Sales Headquarters
- 43 Departments
- 18 Teams
- 117 Branches



- Nominating Committee of the board of directors
- Compensation Committee
- Steering Committee
- Audit Committee

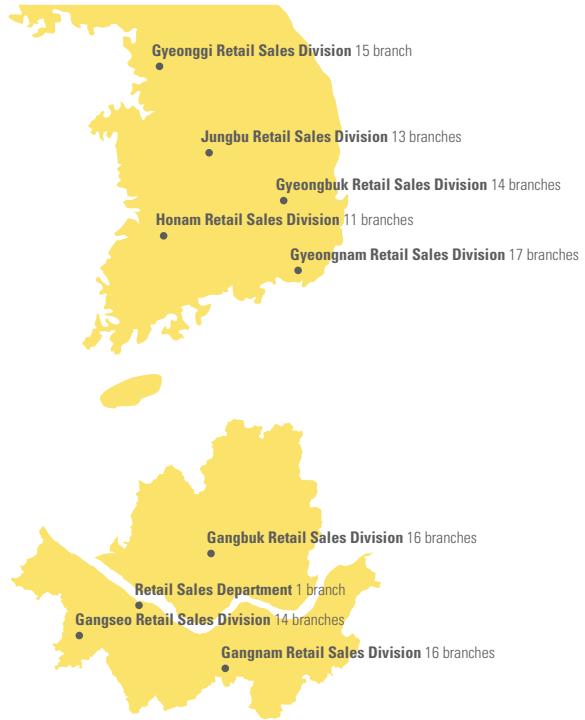
Standing Auditor

Audit Department

Shareholder's Meeting — Board of Directors — CEO & President

- 19 Divisions
- 5 Sales Headquarters
- 43 Departments
- 18 Teams
- 117 Branches

domestic network



overseas network



Company	Location	Address	Telephone No.	Business
Daewoo Securities (Europe) Ltd.	London, U.K.	41st Fl., Tower 42, 25 Old Broad Street, London EC2N 1HQ, U.K.	4420-7982-8000	securities
Daewoo Securities (America) Inc.	NY, U.S.A.	600 Lexington Avenue, Suite 301, New York, NY 10022, U.S.A.	1-212-407-1000	securities
Daewoo Securities (Hong Kong) Ltd.	Hong Kong, China	Suite 816-819, Jardine House, 1 Cannaught Place, Central, H.K., China	852-2845-6332	securities
Tokyo Representative Office.	Tokyo, Japan	Rm. 701, Build X, 2-1-11 Nihonbashi Kayaba-Cho, Chuo-Ku, Tokyo, Japan 103-0025	81-3-5642-6070	securities

- Nominating Committee of the board of directors
- Compensation Committee
- Steering Committee
- Audit Committee



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